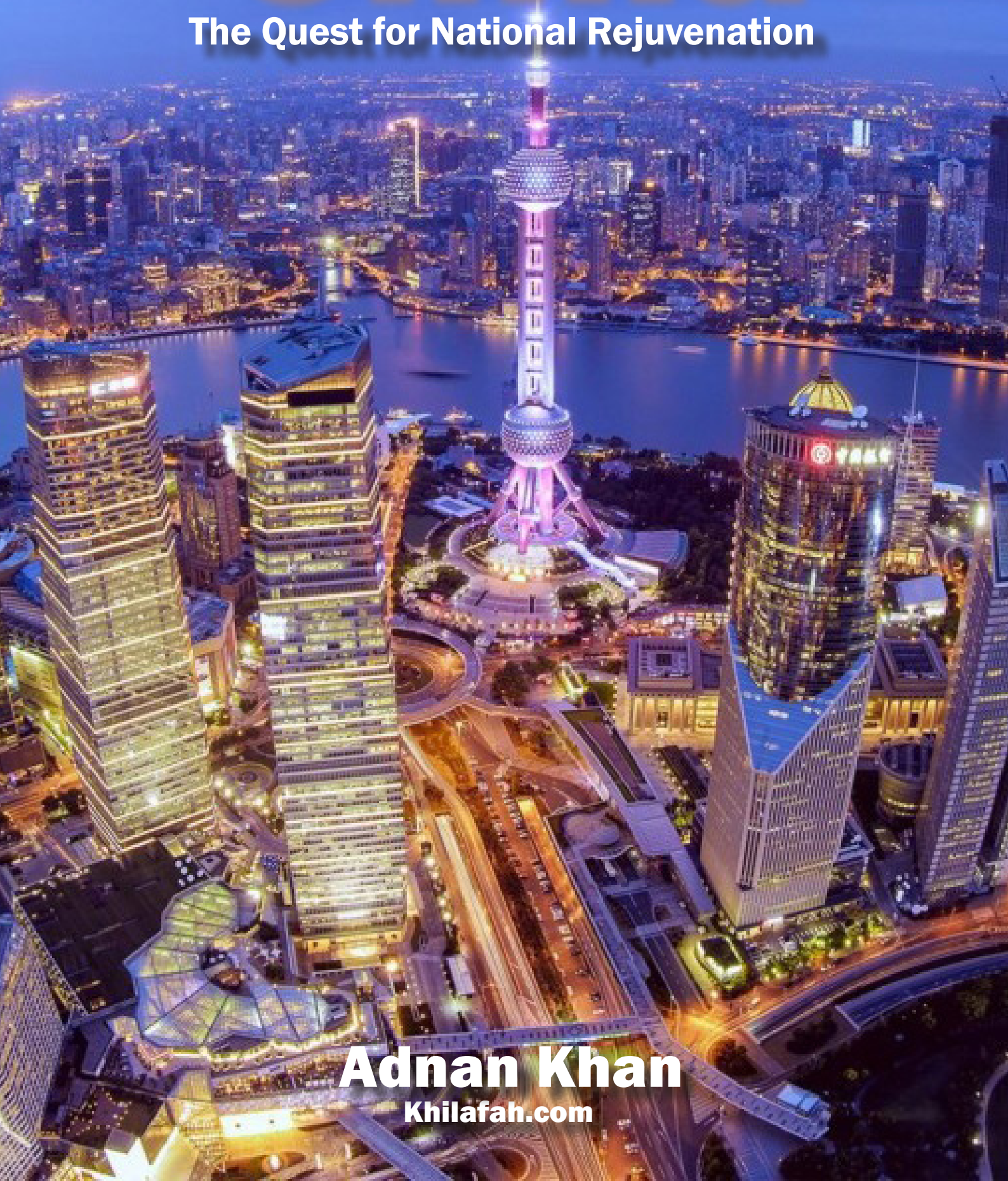


# China

The Quest for National Rejuvenation



**Adnan Khan**

[Khilafah.com](http://Khilafah.com)



***"I think China probably poses the greatest threat to our nation by about 2025,"*** joint

Chiefs Chairman Gen. Joseph Dunford at the Senate Armed Services Committee hearing, 27 Sep, 2017

***"No country poses a broader, more severe long-term threat to our nation's economy and cyber infrastructure than China..... China's goal, simply put, is to replace the U.S. as the world's leading superpower, and they're using illegal methods to get there,"*** Chris Wray, FBI Director, news conference 21 Dec 2018

***"Since 1996, the PLA has made tremendous strides, and, despite improvements to the US military, the net change in capabilities is moving in favor of China. Some aspects of Chinese military modernization, such as improvements to PLA ballistic missiles, fighter aircraft, and attack submarines, have come extraordinarily quickly by any reasonable historical standard. The PLA is not close to catching up to the U.S. military in terms of aggregate capabilities, but it does not need to catch up to the United States to dominate its immediate periphery. The advantages conferred by proximity severely complicate U.S. military tasks while providing major advantages to the PLA."***

The US-China Military Scorecard, Forces Geography and evolving balance of power – 1996 – 2017, RAND

***"The economic fight of the century has now begun..... The current trade dispute is just the first round of an economic fight that will last years, if not decades, as the two economic powers lurch forward on their long-term collision course. While Washington and Beijing may find some common ground, both view the rhubarb as a potentially barbaric fight for economic supremacy in the 21st century. It won't be a battle either side will take lightly, and it won't be without its economic and political casualties."*** For the U.S. and China, the Economic Fight of the Century Begins, Stratfor, 10 May 2018

***"China's actions reflect a long-term strategy to achieve global superiority...With China, we must be concerned about the methodical and long-term efforts to capitalize on its past decade of a growing economy and to match, or overtake our superior global capabilities."***

Dan Coats, Director of National Intelligence in testimony before the Senate Select Committee on Intelligence, Annual Threat Assessment, 29 Jan, 2019





# Introduction

On 3rd January 2019, China landed a lunar probe on the dark side of the moon; the Chang'e 4 spacecraft performed a soft landing in the moon's Von Kármán crater. It was the first mission in human history to overcome the technical challenges of landing on the moon's far side, which, among other feats, required the probe to communicate with Earth via a lunar satellite relay. The Chang'e 4 mission was a coup for China's ambitions but what is much more profound is the fact that China was an economic wreck just a few decades ago.

As the Chinese celebrated this success it was also the 40-year anniversary of China's 'Open and Reform' era. Forty years prior on 29th December 1978, the 11th Central Committee of the Chinese Communist Party (CCP) released the official communiqué from its third plenary session, launching probably the greatest economic growth experiment in human history. At the time China had the world's largest population but it was also one of the poorest countries in the world with poverty exceeding 90% of the population.

Today, after 40 years, China's economy has transformed into a colossal \$13.7 trillion mammoth industrial monster. Today, China's economy represents nearly 20% of the global economy. Using different measures of GDP such as Purchasing Power Parity (PPP), China's economy would be larger than the US economy. This is a unique moment as the US has been the world's largest economy every year since 1888. According to the World Bank China has moved 850 million people out of poverty in just four decades.<sup>1</sup>

Not a day goes by without China making some headlines. Whether it is China's space ambitions, its aircraft carriers, its artificial intelligence (AI) developments, infrastructure, railways, new cities or its cyber capabilities the world cannot get enough of China.

The last decade has seen a plethora of research, analysis and literature on China. Everyone has contributed - from politicians, engineers, policy makers and academics - to what is the most significant development since the collapse of the Soviet Union, on the rise of China. The consensus is China is a potential rising power that represents a threat to the global hegemon - the US. For many it is a matter of when, not if, China will replace the US. US military capabilities are considered to be eroding as China makes breakneck defence developments and all publications and research into US military capabilities consider China to be closing the gap.<sup>2</sup>

In the US think tanks to the Pentagon and to the State Department all consider China as an existential threat to the US established

global liberal order and America's position as the sole global superpower. After decades of cooperation, partnership, competition and containment, President Donald Trump's trade war in 2018 officially kicked off the battle for the 21st century as the global hegemon moves to deal with the rising power. No country has ever developed an economy as rapidly as China has and therefore it is no wonder many consider China to be the nation that will bring to an end to the rather short American century.

It has been three decades since the collapse of the Soviet Union which saw the US emerge as the sole global hegemon. But today the global balance of power is in flux with former European rivals slipping down the global premier league, but with China's rapid economic development and break-neck military prowess, these socio-economic changes have provided China with the capabilities to challenge the global superpower. This fact poses new challenges to US hegemony. The global superpower and those nations that challenge it form the cornerstone of the global balance of power, which is the basic building block of making sense of the world. This is why this development should be given attention by all people.

This is not the only reason why Muslims should

have a view and peruse this development. Parts of China are Muslim land and the Muslims there are oppressed by Chinese government. Our rulers have not just turned a blind eye to our brothers and sisters' plight, but they welcome Chinese money, investment and infrastructure as they kill, colonise, expel and assimilate our brothers and sisters.

Much of the world looks at China in awe, but similar claims were made about the Soviet Union in the 1950s and 1960s, then Japan in the 1970s and 1980s and then Germany in the 1990s. China is the latest rising power and it is important as Muslims we have a view on whether this is just another dot in a long line of challengers or if it possesses the capabilities, foresight and vision to change the world. This should concern all peoples and it has the potential to affect their lives, as Muslims this makes it all the more important.

It is with this in mind this booklet has been written. The opinions and views expressed in this booklet are those of the author *in sha allah*

Adnan Khan  
18 Dhu al-Hijjah 1440 Hijri  
19 August 2019

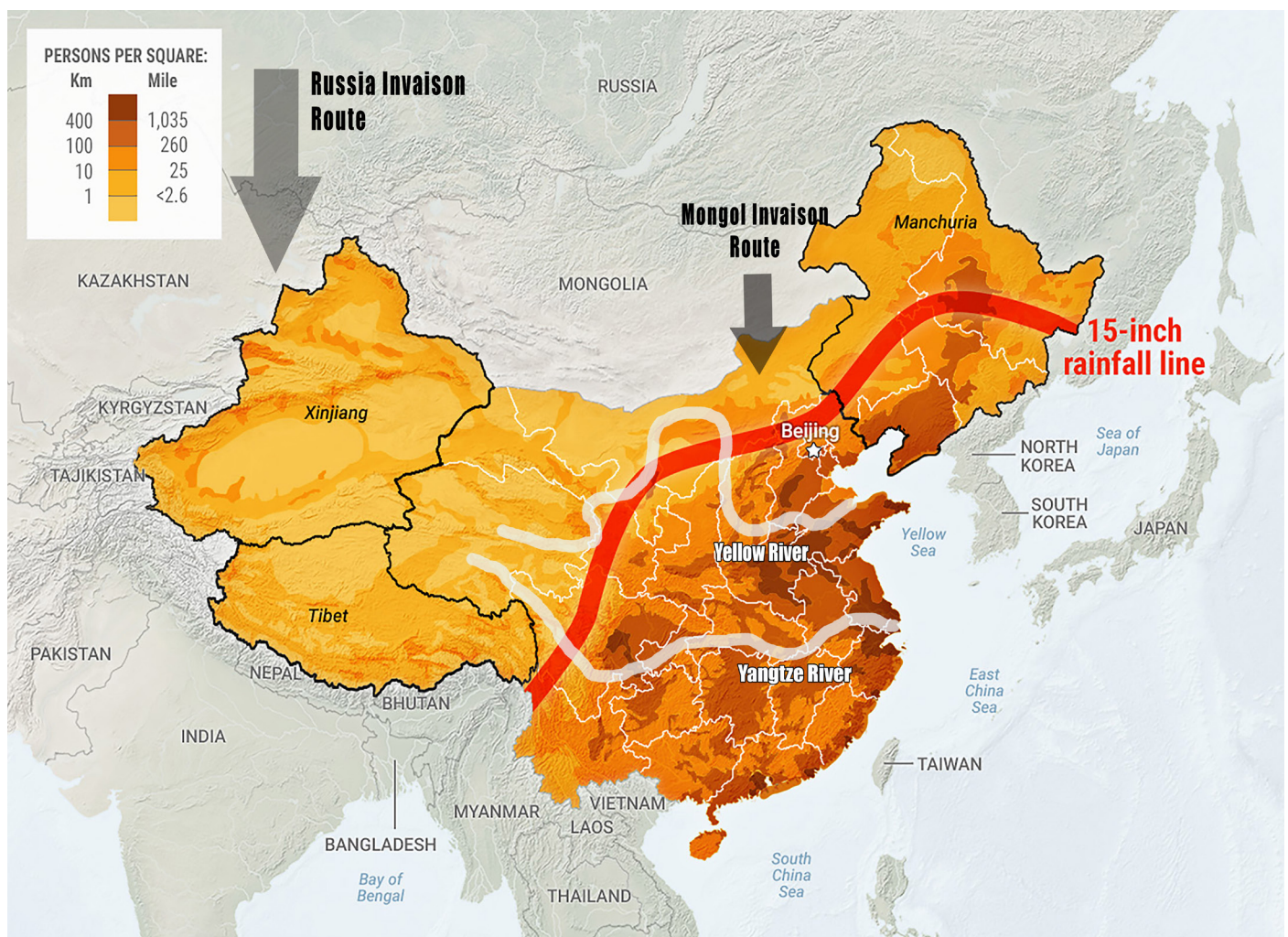




# The Chinese Civilisation

China has a recorded history of over four millennia. In the past, much like today, societies needed water for agriculture and survival. This came either from natural sources such as rivers or from rainfall. The Han people emerged around the Yellow River in the north of modern China and the Yangtze in the south. This region became the heartland of the Han people. This region was also the area where enough rainfall occurred to support agriculture. Without the Yellow and Yangtze Rivers, China as we know it would not exist. When the Qin dynasty captured both rivers and the surrounding areas in 221 BC, China as a single unit came into being and this is considered by the Han people as the beginning of their civilisation. Over time China became a land of farmers and merchants and established itself as an economic force. Merchants from Japan, India and the Arab lands and eventually Europe, all flocked to the country to buy coveted Chinese goods such as silk and porcelain.

China's core which consists of arable land suitable for life to flourish was surrounded by deserts, steppes, jungles, mountains and the sea. The vast majority of China's population historically and today live within one thousand miles of the coast, the other two thirds are sparsely populated. The area around the Han heartland was surrounded by lands of nomads and horsemen. These were non-Han lands surrounding the Han core consisting of Tibet, Xinjiang, Inner Mongolia and Manchuria. This is a vast landmass which surrounds the core area for the Han people. For the Han Chinese to survive it would need to control (expand) from its heartland to these buffers. These regions have historically been where threats to China originated. In the 13th century, the Mongols under Genghis Khan invaded and occupied parts of Han China until the 15th century, when the Han reasserted their authority.







Admiral Zheng He

China has been more enclosed than any other power in history. But this has been both a blessing and a curse. The size of its population, when it has secure frontiers and an abundance of resources, allowed it to develop with minimal interaction with the rest of the world. China has actually been through numerous lengthy periods of its history, closed off to the rest of the world. China along with India has also been the world's largest economy for most of human history and so it didn't see the need to engage with the world. The Ming dynasty-sponsored maritime adventures of the Muslim admiral, Zheng He, was the exception, but that was brought to an abrupt end in 1425 due to foreign influence entering China, which it didn't need.

The other side of being enclosed, especially in the case of China is poverty. As China has always had a large population, relative to other nations and people, concentrated in a small territory (the heartland) the ratio of arable land to the populace has meant the majority of Chinese were poor, despite periods of prosperity. The population was so poor that economic development driven by domestic demand was virtually impossible for long periods in China's history. International trade was how most of China's dynasties tried to get out of this scenario each time it occurred.

When China did engage in international trade, it did so using overland routes like the Silk Road through Central Asia. China historically has been a land power, not a maritime power. Although China has been involved in the maritime sphere for centuries and Chinese merchants have been active throughout Southeast Asia, the country's geography, natural resources, population pressures and neighbours all allowed and encouraged Chinese leaders to focus their attention on the country's vast territory and land borders. At times of relative stability and security in China's history it avoided expanding its naval activity because it was not pressed to physically assert its overseas positions. The Silk Road provided enough access to exotic trade and any additional resources. The coast of China was often plagued by piracy and suffered occasional raids, but given China's huge interior, it rarely focused on naval power, concentrating instead on coastal defence. Traders

and fishermen plied the seas but with minimal protection from the central government.

When the European continent was going through industrialisation in the 18th century and fighting over the new world and scrambling over Africa, the Chinese saw themselves as a people with a 4,000 year rich and ancient heritage. In Mandarin, Zhongguo, the Chinese name for China, means Middle Kingdom. This was based upon one of the early eras of the Han people dating from 1000 BC, when the Zhou Empire was designated as the Middle Kingdom. The Zhou people, unaware of other civilisations in the world believed their empire occupied the middle of the earth, surrounded by barbarians. The Chinese people still today believe they are the heirs to this ancient civilisation, making Chinese history very special.

***Chinese history consists of multiple millennia where she faces the imperative of expanding to protect her vast interior from invasion from hordes of nomads and other invaders. This vast territory has allowed China many eras of progress and immense wealth. But China's history also consists of many eras of contraction, invasion and poverty. Chinese history is one of expansion and contraction; this has been the country's struggle for centuries.***

Zbigniew Brzezinski encapsulated thousands of years of Chinese history in his seminal work, The Grand Chessboard. He characterised China's geopolitics through the ages as "cycles of reunifications and expansions, followed by decay and fragmentations."<sup>3</sup> Every dynastic ruler in China's more than 4,000 years of history has faced the same struggle: to unify and govern an insurmountably vast and disparate landmass under a centralised authority.

After thousands of years, China's imperatives came to be the following:

- Maintain internal unity in the Han Chinese regions
- Maintain control of the buffer regions
- Protect the coast from foreign encroachment





# China's Four Millenia History of Unification and Disintegration

**China traces its history back to the Xia Dynasty of the second millennium BCE, which was centred along the Yellow River**



The Zhou Dynasty popularised the concept of the Mandate of Heaven. The Zhou Dynasty became a shell of itself over the centuries, until it was ultimately succeeded by the Qin Dynasty. This moment is often thought of as the birth of China

1700 BC

Chinese culture spread from the Yellow river, even as the Xia Dynasty was overthrown by the Shang Dynasty

1047 BC

The Shang dynasty in turn was overthrown by the Zhou Dynasty

221 BC

The Qin Dynasty was overthrown by the Han Dynasty, which would itself lose power until the Jin Dynasty reunified the land

265 AD

The Jin Dynasty was destroyed by foreign invaders, but the Sui Dynasty would reunify the land

581

The Sui dynasty was succeeded by the Tang Dynasty, which was in turn ultimately succeeded by the Song Dynasty after a period of disintegration

960

The Song dynasty was conquered by the Mongol Yuan Dynasty, which in turn was driven out by the Ming Dynasty

1271

The Ming Dynasty was conquered by the Manchu Qing Dynasty, which ruled from 1644-1912

1644

The Qing Dynasty fell in 1912, replaced by a republic, but this republic would fail to exercise control over all of China, with much of China instead controlled by various warlords

1912

Ultimately, the Kuomintang nationalists under the leadership of Sun Yat-sen and Chiang Kai-shek would emerge as the most powerful faction

The Nationalists would then engage in a war with the Communists, with the Communists ultimately emerging as victorious. The Communist party, who remain in power today, are merely the latest dynasty to rule over China

1950

# Century of Humiliation

By the 18th century, the dawn of both the maritime and colonial eras would shatter China's beliefs. Naval intruders began arriving on the country's shores. The Europeans encountered a China when it was going through one of its isolationist periods. It was united but poor. The Europeans forced their way in, engaging coastal China in intense trade. This led to a dramatic increase in wealth in the coastal areas that were engaged in trade, but also caused a massive increase in inequality between China's coast and the interior regions. This disparity led to the weakening of the Qing dynasty's control over the coastal regions and increased instability and then eventually chaos.

By the 1830s the Middle Kingdom's fortunes had changed. European traders, empowered by the technological progress of the Industrial Revolution, forcibly opened China up to trade on their terms. China dubbed the ensuing period the 'Century of Humiliation,' when between 1839 and 1949, Western powers and then a newly industrialised Japan forced their way into the mainland China and entrenched themselves there.

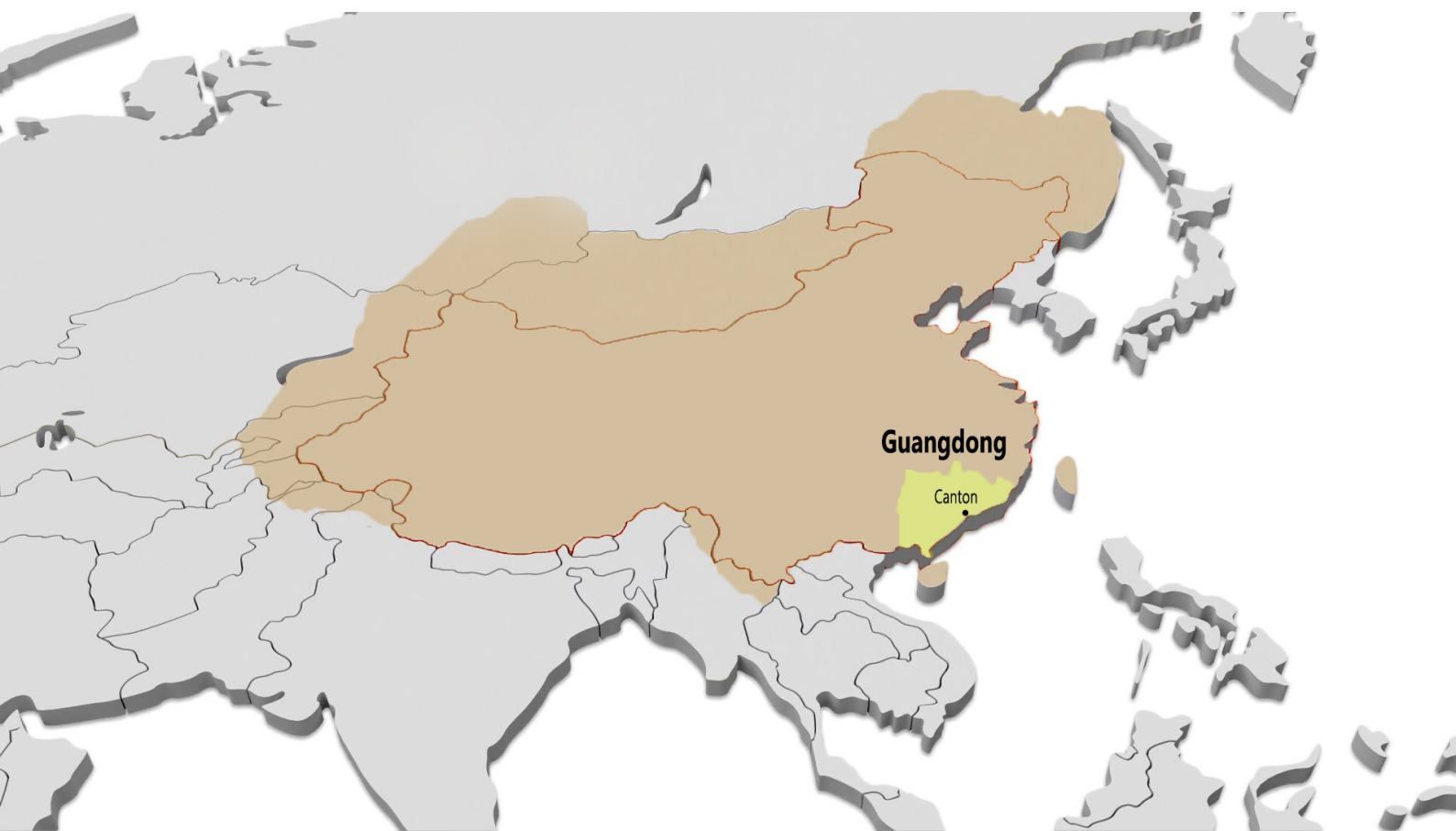
China was under the illusion that other nations were barbarians and too remote from the centre of

the civilised world. But China was shaken by the much more powerful Western nations. For much of the second half of the 19th century, it suffered humiliating defeats in the Opium Wars with the British, wars with the French, Portuguese, Russians and the Japanese, whom the Chinese considered inferior 'dwarf people.'<sup>4</sup>

The Qing dynasty, founded by Manchurian clans in 1644, expanded China's borders to their farthest reach, conquering Tibet, Taiwan and the Uyghur Empire. The Qing then turned inward and isolationist, refusing to accept Western ambassadors because they were unwilling to proclaim the Qing dynasty as supreme above their own rulers. Foreigners, even on trade ships, were prohibited entry into China; the exception to the rule was in Canton, (modern day Guangzhou) the south-eastern region centred on modern-day Guangdong Province. Foreigners were allowed to trade in the Thirteen Factories (aka Canton Factories) district in the city of Guangzhou, with payments made exclusively in silver. The British gave the East India Company a monopoly on trade with China and soon ships based in colonial India were vigorously exchanging silver for tea and porcelain.

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## Qing Dynasty 1820







## CASE STUDY: The Opium Wars

European merchants had disappointing experiences in China in the 17th century but found new paths to profit in the early 18th century. Tea was the most lucrative trade, displacing silk as the biggest money maker before 1725. In that year, Britain's East India Company bought over 90 metric tons of tea; by 1805, the amount had grown to 1,814 metric tons. The volume became a problem, because the only item Chinese officials would accept in exchange for tea was silver, which the company had trouble providing in such quantities. Chinese merchants had little interest in exchanging their own silver for other British goods, and so the company steadily drained its reserves. Twice, in 1793 and in 1816, Britain sent emissaries to try to convince the Chinese emperor of the excellence of British goods, in the hope of preserving the profits from the tea trade while ending the pressure on their silver. China rebuffed both efforts.

British traders found another solution. Unlike Chinese trade officials, who were interested only in silver, ordinary Chinese citizens had a taste for another British

import: opium. Fortunately for British merchants, the world's best opium came from Bengal, which came under British rule in the 1750s. By the 1820s, the silver that Chinese consumers were spending on opium more than matched the amount the British handed over to buy tea. Chinese consumers bought more than 900 metric tons of opium from British dealers in 1831 alone.

The relationship was splendidly transactional and made plenty of people rich. But there were two big problems: first, the trade was fuelling a Chinese opium epidemic; second, opium was illegal in China. It was up to the Chinese government to decide what to do about this fact.

Some officials — particularly those who personally profited from the drug trade — argued that neither legality nor public health was important enough to warrant disrupting trade with the West. The best strategy, they proposed, was to ignore the issue. Meanwhile, some scholars — particularly those excluded from the inner circles of government — argued that morality outweighed profit and wrote essays urging the ruling elite to end the epidemic by shutting down all trade with the West.

In the end, the emperor declared a war on drugs and in 1839 sent Lin Zexu to Guangzhou as his drugs inspector. Lin confiscated a staggering 1,542 metric tons of opium from Western (mostly British) merchants. The British drug cartel responded by pressuring the government back in London to demand that Beijing repay them the full street value of the lost narcotics. When the emperor refused, a squadron of the United Kingdom's most up-to-date warships were sent to Guangzhou in 1840, brushing

aside the Empire's junk ships and blasting its coastal towns into ruins. The one-sided war dragged on for two years, until the Qing emperor capitulated. The Treaty of Nanking (Nanjing), the post-war treaty of 1842, stipulated that Hong Kong would be handed over to Britain (this was only returned to China in 1997), and that China would be forced to establish five treaty ports in which British traders would trade anything they wanted with anybody they wanted to. The Century of Humiliation was just beginning.



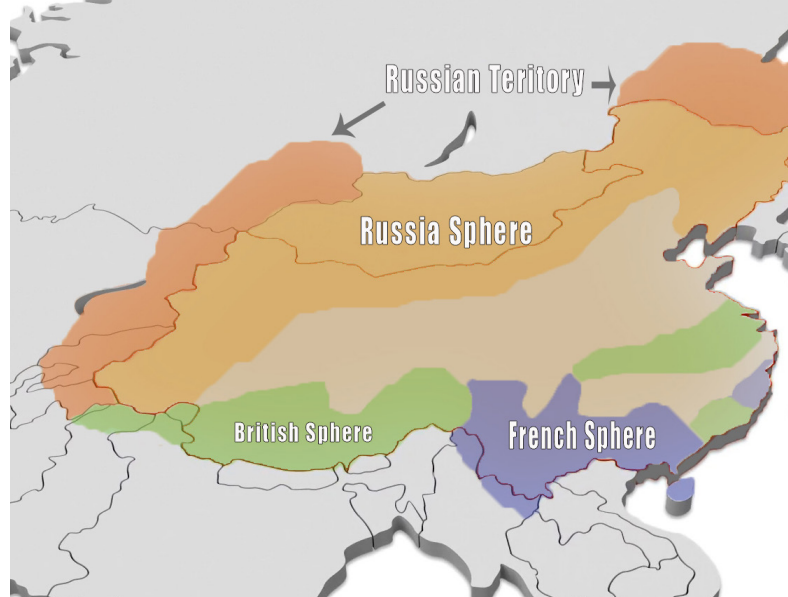
The British extracted additional capitulations in the second Opium War (1856-1860) after declaring that the Qing emperor failed to meet his requirements in the first treaty. Britain forced the emperor to formally recognise the British as equals and grant their traders favoured status in the Treaties of Tianjin.<sup>5</sup> In an attempt to quell Chinese antagonism, the British and French destroyed the Old Summer Palace, the traditional home of the Qing emperor. The act humiliated the Chinese by “teaching the Qing a lesson they would never forget.”<sup>6</sup>

As the decades passed after the Opium Wars, the Qing dynasty fell victim to other powers seeking a piece of the Chinese pie. The Opium Wars were just the beginning, China's problems did not end there, the defeat in the Opium Wars opened the floodgates:

**Treaty of Whampoa, 1844** – France forced China to grant it the same privileges as it did to Britain in the Treaty of Nanking. Privileges included the opening of five harbours to French merchants, extraterritorial privileges to French citizens in China and the right of France to station consuls in China.

**Treaty of Aigun, 1858 and Treaty of Peking, 1860** – With Russia these treaties reversed the Treaty of Nerchinsk (1689) by transferring to the Russian empire, effectively the whole North-East of China over 231,660 sq mi.

**Treaty of Shimonoseki, 1895** – This treaty with Japan ended the First Sino-Japanese War, and its terms included China's recognition of the independence of Korea and the ceding of the Liaodong Peninsula and the islands of Formosa (Taiwan) and Penghu (Pescadores) to Japan.



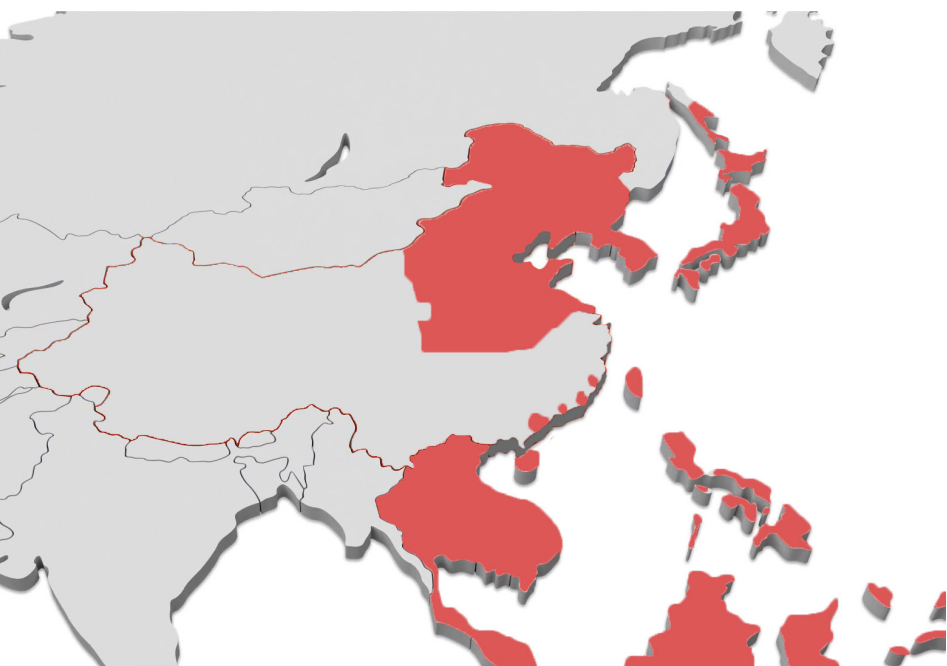
*China: Spheres of Influence - 1900*

China also paid Japan a war indemnity of 200 million kuping taels, payable over seven years and the signing of a commercial treaty similar to ones signed by China with various western powers opening various ports and rivers to Japanese trade.

**Sino- Japan War – 1937-1945** - In 1931 Japan began the opening salvo of its occupation of mainland China, it took over Manchuria first. In 1937 Japan captured both Shanghai and the Chinese capital. By 1939 Japan conquered its furthest in China, it conquered almost all the coastal area of China, running nearly 2000 miles along the coast.

By the turn of the 20th century China was in chaos. The Qing dynasty had been in a long decline. It was forced to agree to unequal treaties that granted foreign concessions in China's ports. The Qing dynasty had lost control of not just of the buffer regions but even key areas of the heartland. Regional warlords began to take over areas from the Qing dynasty.

The Chinese revolutionary and nationalist Sun Yat-sen established the Republic of China in 1911 in an attempt to reverse China's fortunes. Immediately thereafter, a newly empowered Japan gave China its Twenty-One Demands, such as recognising Japan's control over provinces like Manchuria. The Chinese government became even weaker as a republic than it was under imperial rule. Warlords divided the country and a four-decade civil war ensued. The Japanese army took advantage of these conditions and invaded and occupied China in 1937. Another period of decay and fragmentation was taking place in China's long and turbulent history.



*Japanese occupation of China - 1942*



If we were to look at China's imperatives at the dawn of the 20th century:

- **Maintain internal unity in the Han Chinese regions** – China was physically occupied and even ruled over by 'barbarians'.
- **Maintain control of its buffer regions** – China had lost not just the buffer regions but most of the heartland and the core Han region was also lost.
- **Protect the coast from foreign encroachment** – The imperial nations occupied the key ports on China's coast in unequal treaties. Then Japan conquered nearly all of the coastal area and large chunks of the interior.

The four millennia old civilisation was brought to its knees. The Qing government signed a series of "unequal treaties," conceding Hong Kong, Macau, and other major port cities to Western control. The Chinese have never forgotten this shame. This period is carved into the minds of all Chinese, even today their view is, long the world's pre-eminent civilisation, China fell behind the superior technology of the West over the centuries, an imbalance that finally came to a head with the loss in the Opium Wars. This began the most tumultuous century in the country's history, one that featured an incessant series of wars, occupations and revolutions. When the Qing dynasty fell in 1911 it was believed China would be Balkanised and carved up amongst the colonial powers.



*“The four millennia old civilisation was brought to its knees. The Qing government signed a series of “unequal treaties,” conceding Hong Kong, Macau, and other major port cities to Western control. The Chinese have never forgotten this shame. This period is carved into the minds of all Chinese, even today their view is, long the world’s pre-eminent civilisation, China fell behind the superior technology of the West over the centuries, an imbalance that finally came to a head with the loss in the Opium Wars.”*

# CASE STUDY:

## 2,000 Years of Economic History

Many studies show that China was the world's largest economy in 1820, accounting for over 32% of global GDP. However, foreign and civil wars, internal strife, weak and ineffective governments, natural disasters (some of which were man-made) and questionable economic policies caused China's share of global GDP to shrink significantly. By 1952, China's share of global GDP had fallen to 5.2%.<sup>7</sup>

China's large area and the cultivation of rice which can feed more people per hectare of crop has always supported a very large population. Because incomes were constant, a larger population resulted in a larger economy.

China had splintered examples of rich provinces

and international trade centres in Xian and Canton.

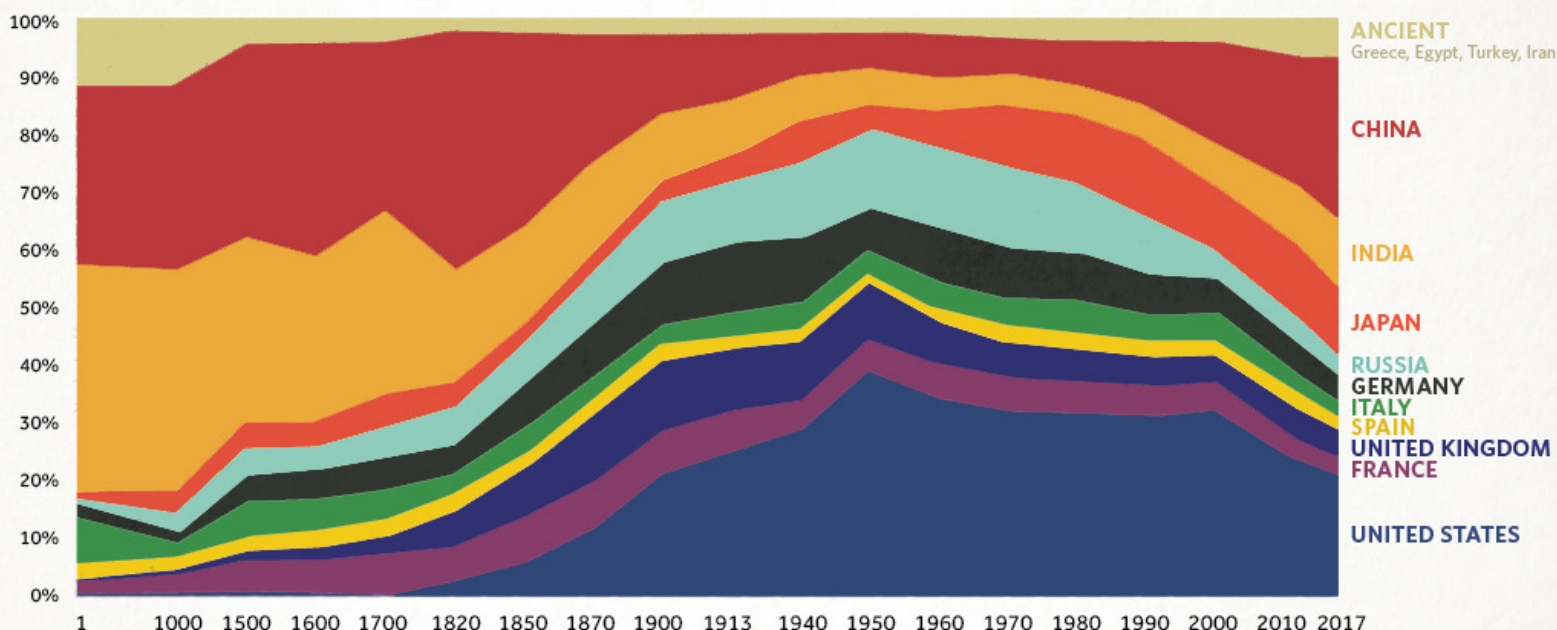
But trade was almost always chartered, not free and affected a minuscule of China's population, the majority were subsistence farmers. The resulting economy was of subsistence farmers and rich emperors.

In Year 1, India and China were home to 33% and 25% of the world's population, respectively. This is the main reason why these nations dominated global GDP. Before the Industrial Revolution the more people a ruler had the more that could be produced by farming. It also meant there were more mouths to feed, this is why both China and India went through periods of vast wealth and poverty.

## Economic History in One Chart

All major powers compared by GDP from the year 1 AD

SHARE OF GDP (WORLD POWERS)





# Mao's Communist Dead-End

The Qing dynasty was replaced by the nationalists who resided in urban China, forming the Kuomintang of China (the Chinese Nationalist Party). Its leader Sun Yat-sen had no army to command and an ineffective state apparatus. China was dominated by warlords and this made the central government ineffective. The most influential warlord Chiang Kai-shek eventually replaced Sun Yat-sen as the leader of the nationalists. As dictator Chiang Kai-shek attempted to unite China, but due to the Japanese occupation in the north of China, foreign interference and the lack of support in the rural areas (the nationalists' support came mainly from the urban areas of China), China remained in chaos.

Mao Zedong, whilst working at Peking University in the 1920s became a founding member of the Chinese Communist Party (CCP). He first attempted to trigger an uprising in the cities in 1927 against the Nationalist government – the Kuomintang, but failed. The communists temporarily allied with the nationalists under the United Front during the Japanese invasion from 1937–1945. When the Japanese forces surrendered in 1945 the civil war resumed between the Communists led by Mao and backed by the Soviet Union and the Nationalists, led by Chiang Kai-shek and backed by the US. Mao took the long march to the interior of China, where he raised a massive peasant army and in 1948, returned to expel the Nationalist leaders, who, along with his government and supporters escaped to the island of Taiwan.

The communists faced a daunting task. The central government had weakened and lost control of the country. Japan had occupied and destroyed much of the country and warlords had taken over most of the buffer regions. Japan left Manchuria after its defeat and this region came back under Chinese control, Outer Mongolia was under Soviet control which was extending its influence into Inner Mongolia and Tibet and Xinjiang, they were effectively beyond the reach of the central government.

In 1950, Chinese forces captured Tibet's border area, forcing the Tibetan government to accept China's Seventeen Point Agreement. In 1956 China repudiated this agreement, forcing the Dalai Lama to flee. In



Xinjiang many Uyghur Muslims died in clashes that took broke out in 1949 between the Communist regime that took over and abolished the independence of the territory and annexed it to the Republic of China. The Communist regime tried to empty the region's population of Muslims by forcibly re-settling them to China's other provinces. The Communist regime supported Mongolian militias during the war against Japan and sent them into Manchuria as guerrilla fighters. After the war ended in 1945 the communists influence over the fighters was enough to bring both inner Mongolia and Manchuria regions under communist control.

Mao re-enclosed China, re-established Beijing as China's capital, centralised power again and wanting to end the huge inequality between the coastal region and the rest of China, Mao expelled foreigners in the coastal areas. Mao had recreated a united Han China, it severed ties with the outside world and then established manufacturing bases in remote, mountainous inland regions to protect them against foreign invasion and capture.

After nearly a century, China's strategic imperatives were secure:

- **Maintain internal unity in the Han Chinese regions** – Internally Mao had reunified China.



- **Maintain control of its buffer regions** – All four buffer zones were under Beijing's control. China was secure from invasion. Controlling Tibet meant that India could not move across the Himalayas. Xinjiang, Inner Mongolia and Manchuria buffered China from the Soviet Union.

- **Protect the coast from foreign encroachment** – Being united internally now meant China controlled its coast and could now marshal the resources and build a navy to protect its littoral waters.

Politically, China became a communist state, communism became the country's worldview. Mao believed that communism would eventually triumph over all other ideologies, but under Mao, Chinese leaders interacted little with the UN and other major institutions of the international system.

In fact, China was left behind completely as the US constructed the post-World War order.

China viewed itself as a revolutionary state, self-consciously determined to undermine and overthrow the US-led global capitalist order. It did this through portraying itself as a representative of the developing world through its support for the non-aligned movement through much of the Cold War, this practically meant China played virtually no role beyond its borders.

With China now secure, Mao faced the challenge of feeding a population of 550 million. China along with India throughout history had always been the world's largest population. China needed to develop its economy after a century of devastation by foreign powers. This was to be achieved, according to Mao via communist lines.

## CASE STUDY: The Battle for the Korean Peninsula

In 1910, Korea was annexed by the Empire of Japan. After the Japanese surrender at the end of World War II, in 1945, Korea was divided into two zones, with the north occupied by the Soviets and the south by the Americans. Negotiations on reunification failed, and in 1948, separate governments were formed: the socialist Democratic People's Republic of Korea in the north, and the capitalist Republic of Korea in the south.

Kim Il-sung, the first ruler of North Korea and the grandfather of today's ruler, Kim Jong-un, was educated in the Soviet Union, he joined the Soviet Red Army in 1940, even serving as a major and in 1946 Stalin made him the head of the North Korean Temporary People's Committee. When North Korea officially became a country in 1948, Kim was declared its prime minister. Kim Il-sung's vision for the country was one of a dynasty. This move was immediately supported by the Soviet Union and China.

In 1950, Kim Il-sung convinced Soviet Premier Stalin to provide tanks for a war that would reunify North and South Korea. On 25th June 1950 Kim Il-sung launched a surprise invasion of South Korea. It was so surprising that by the fourth day, North Korea had captured Seoul, the South's capital. Within a month, South Koreans were on the verge of surrender.

The US, under the guise of a UN authorised force, consisting almost entirely of US troops came to the rescue. Led by General Douglas MacArthur, the supreme commander for the allied forces in Japan, he deployed three US divisions backed by B-26s and B-29s bombers that had demolished Japan. In three

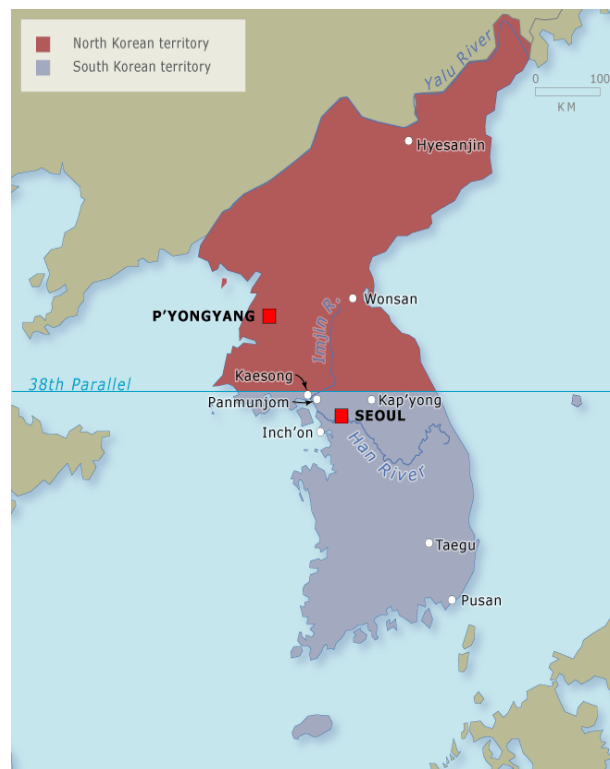
months, they drove the North Koreans back to the 38th parallel. US soldiers used conventional bombing which was unlike anything used in the Second World War except Hiroshima and Nagasaki. Pyongyang, the northern capital, was destroyed. Five large dams were bombed, causing floods that wiped out the rice harvest. Many North Koreans were forced to live in underground tunnels. The US expected the war to be over soon and expected

little from China, who shared a border with the Korean peninsula. This was because only a year earlier China was in the midst of a civil war and was viewed with contempt, lacking military skill and bravery and was viewed as a peasant army by US officials. Based on this the US forces crossed the 38th parallel and drove the North Koreans all the way back to the Yalu River, which marks the border between China and North Korea. Kim begged Stalin for help, but the Soviet ruler declined. Chairman Mao Zedong of China waited two days before agreeing to assist the North Koreans.

Completely underestimating China, MacArthur found in November 1950 a 300,000 Chinese force halted America's advance and beat them back to the 38th parallel. Losing a war, he thought he had won, MacArthur called for President Harry Truman to authorise him to use nuclear

weapons against China. Truman fired him. The war dragged on in a stalemate for two more years before an armistice was signed by Truman's successor President Dwight Eisenhower in 1953.

The Korean War was really the first US-China war. It was China's attempt to ensure its territorial integrity was maintained. Today the US continues assisting South Korea in its development and China plays a key role with Russia as nominal allies of North Korea.





# The Great Leap Forward

## 1958 - 1961

The 'Great Leap Forward' in 1958 was a hugely ambitious plan that attempted to use mass mobilisation to catch up with the industrial standards of the US and UK in just a few short years. The plan attempted to collectivise all aspects of life (even cooking pots), the strategy saw farmers pulled off their land to to engage in ill-advised rural industries such as small scale steel plants. The strategy led to widespread famine and the death of 30 - 40 million people. The years of the Great Leap Forward saw economic regression, it was a disaster of epic proportions. The negative effects of the Great Leap Forward were studied by the Communist Party and Mao was criticised in the party conferences. Mao came to be marginalised within the Communist Party leading to moderate party members like Liu Shaoqi and Deng Xiaoping to rise to power.



# The Cultural Revolution

## 1966 - 1976

Mao hit back and initiated the Cultural Revolution in 1966. Mao announced China was lacking in revolutionary spirit. He targeted the party bureaucracy and accused them of leading the country into stagnation. He accused the party bureaucracy of dragging their feet in implementing his edicts. The Cultural Revolution was a campaign to shake the bureaucracy's hold on power. Brigades of students were mobilised to make war on thoughts that were deemed reactionary. These Red Guard students roamed the country seizing control of government offices, destroying cultural artefacts and terrorising the population. The army stepped aside leaving the party bureaucracy to direct attacks. Many leading Communist cadres were killed after being identified as reactionaries. Liu Shaoqi and Deng Xiaoping were purged, Liu later died in prison. The campaign would not come to a complete end until the death of Mao in 1976, when the military demobilised the Red Guards leading to the end of another period of instability in China's long and turbulent history.





## The Sino-Soviet Split

The Soviet Union influenced the development of 20th century China. Ties between Chinese Communists and Soviet Russia dated back to 1919 with the formation of the Communist International (or Comintern). The Comintern was a Moscow-based agency created by the Bolshevik leader Vladimir Lenin. Its mission was to promote international socialism and provide advice, leadership and support for socialist movements around the world. The Comintern played an important role in the formation and direction of the Chinese Communist Party (CCP). For the entire 1920s the CCP's organisation, ideology and methodology followed instructions and advice from Moscow.

In 1949 the CCP claimed victory and formed the People's Republic of China. Communist regimes now held power across nearly a quarter of the world, ruling a combined population of almost 800 million people. Maintaining a friendly and productive relationship between Moscow and Beijing was crucial for the advancement of global socialism. In 1949 Mao travelled to Moscow to meet Joseph Stalin for the first time. Recognising the need for unity at a time of growing opposition to communism, Stalin and Mao signed a bilateral treaty called the Treaty of Friendship, Alliance and Mutual Assistance. Among its terms was a military alliance: if either China or the Soviet Union was attacked, the other would come to their assistance. But privately Mao felt that Stalin did not view him as an important partner.<sup>8</sup> Mao committed forces to the Korean War on the assumption that Stalin would involve Soviet forces and provide men, machinery and weapons. Stalin, however, did not wish to be drawn

into open conflict with the US. He confined Soviet involvement in Korea to air support and the sale of aircraft, weapons and munitions (for which he charged Beijing full price).

When Stalin died in 1953, Mao began to see himself as the world's senior communist leader. Leadership of the Soviet Union passed to Nikita Khrushchev, a blunt, crudely spoken party official who was extremely loyal to Stalin. In 1956 Khrushchev delivered his famous 'Secret Speech' which condemned the personality cult, despotism, show trials, purges and violence that occurred under Stalin's reign. Khrushchev's denunciation of Stalin placed Mao in an awkward position. While Mao privately distrusted Stalin, in public he had always given Stalin his full backing. Stalin's cult of personality was replicated by Mao and the CCP, who hailed Stalin as the benevolent and visionary leader of international communism.

After the October 1957 defence accord, which saw Moscow share nuclear weapons prototypes with China, Sino-Soviet relations began to worsen when Khrushchev took a softer line on the West, suggesting that "peaceful coexistence" between communist and capitalist nations was possible.<sup>9</sup> Mao's foreign policy revolved around anti-Western, anti-American propaganda. Khrushchev visited China in July 1958 and during the talks, Mao treated Khrushchev with arrogance and disdain. Mao refused to agree to Khrushchev's proposed joint defence projects and Khrushchev responded by pulling most Soviet advisors out of China. Khrushchev visited China again the following year and infuriated Mao by delivering a speech praising US president Eisenhower and his foreign policy.<sup>10</sup> By 1960, the Treaty of Friendship, Alliance and Mutual Assistance was all but dead. In mid-1960s, the Soviet Union pulled its remaining technical advisors out of China, leaving many infrastructure projects half finished. In 1964, Mao claimed the Soviet Union was still in possession of Chinese territory, stolen during the reign of the tsars. By 1968, China and the Soviet Union built up their military presence in the Manchuria region, to the point where more than 1.5 million soldiers were straddling the Ussuri River. In March 1969, the first skirmishes took place leading to the death of nearly 700 mostly Chinese soldiers. It would take another decade to resolve this dispute.

***"...privately Mao felt that Stalin did not view him as an important partner. Mao committed forces to the Korean War on the assumption that Stalin would involve Soviet forces and provide men, machinery and weapons. Stalin, however, did not wish to be drawn into open conflict with the US. He confined Soviet involvement in Korea to air support and the sale of aircraft, weapons and munitions (for which he charged Beijing full price)."***





## The Enemy of My Enemy is My Friend

The US viewed China as a communist state who in coordination with the Soviet Union was looking to spread communism around the world. The US established a containment policy after WW2 in order to stop the spread of communism by backing nation states around the Eastern Bloc and proxy groups. The US viewed China as an aggressor nation and enforced an economic containment policy including an embargo on the country, following its entry into the Korean War in 1950. But after nearly 20 years of neither diplomatic nor economic relations, the US saw an opportunity to split the Communist Bloc. The CIA throughout the 1960s was informing the White House of problems between Moscow and Beijing and that the united front was suffering from many problems behind the scenes.<sup>11</sup>

The US and China came to have the same enemy. As a result China came to see closer relations with the US as a beneficial counter to its increasingly tense relationship with the Soviet Union, while the US sought closer relations with China as leverage in its peace negotiations with North Vietnam and in order to split and weaken the Eastern Bloc. In 1971, President Nixon's National Security Advisor Henry Kissinger secretly visited Beijing during a trip to Pakistan and laid the groundwork for Nixon's visit to China. This meeting was arranged and facilitated by Pakistan through its strong diplomatic channels with China.

After 25 years of no diplomatic relations, US President Richard Nixon visited China on the 21st February 1972. Over the next decade, the US transferred diplomatic recognition from Taipei to Beijing. The US reiterated the Shanghai Communiqué's acknowledgment of the Chinese position that there is only one China and that Taiwan is a part of China. When Premier Deng Xiaoping visited the US in 1979 numerous bilateral agreements, especially in the fields

of scientific, technological, and cultural interchange, as well as trade relations were signed which gave China access to US technology. Arms sales to China also began, this was significant as China's military was based upon Soviet exports. The People's Republic of China (PRC) was admitted to the United Nations in place of the Republic of China (Taiwan).

Mao's era came to an end in 1976 when he passed away, a power struggle ensued but Deng Xiaoping outmaneuvered Mao's appointed successor, Chairman Hua Guofeng and gradually emerged as the de facto leader.

At the end of Mao's era, China's strategic imperatives were:

- **Maintain internal unity in the Han Chinese regions** – The Chinese Communist Party (CCP) was seen as the saviour of the Chinese civilisation after the Japanese surrendered and after the Communists emerged victorious from the civil war. The CCP was never viewed as a political party but as the saviour of the Chinese civilisation.
- **Maintain control of the buffer regions** – These regions, on the whole, were restored in the first few years of the CCPs rule. Despite tensions with the Soviet Union and skirmishes, the buffers were never under threat of being overrun under the CCP.
- **Protect the coast from foreign encroachment** – Under the Communist Party China acquired naval ships from the Soviet Union, but its main threat was land based during this period rather than the sea. Under Mao, China's coast was secure.

China was secure under Mao compared to the era before which the Chinese consider their Century of Humiliation. But China was poor and remained economically backward and well behind the world's powers. This was largely due to its own self-destructive policies such as the Great Leap Forward and attempts to turn the country into a Communist state. China's GDP in 1976 was a mere \$153 billion, whilst it possessed the world's largest population of 930 million. Spain and Holland – which were the size of Chinese cities had larger economies. Over 90% of China's population was in poverty. Whoever was going to inherit China from Mao would be dealing with a country beset with disenchantment with the Communist Party and institutional disorder resulting from the chaotic policies of the Mao era.

# 'Socialism with Chinese Characteristics'

The death of Mao led to the emergence of the reformists led by Deng Xiaoping. Under his leadership an analysis of the nation was undertaken by technocrats from the CCP. The analysis presented at the 3rd Plenary Session of the 11th Central Committee of the Communist Party of China in 1978, concluded that the prior efforts to develop China, the Great Leap Forward and the Cultural Revolution, had been failures. Mao's theory of

continued revolution under socialism was abandoned and mass class struggle came to an end. It proposed a new comprehensive policy for China called the "Four Modernizations" of industry, agriculture, national defence and science-technology. This plan was based on a number of underpinnings.

The most important of these underpinnings were:

## Self-Sufficiency

**China possessed many of ingredients needed to become of global superpower. It had the agrarian land to be self-sufficient in its food supply. The sheer size of China's population gives it the ability to become economically independent i.e. the Chinese market is so big that every local demand – both civilian and military could efficiently be produced domestically. If managed properly, such strengths combined could give China the financial ability to develop its armed forces.**

## Knowledge Base

**China would never realise its potential if did not increase its knowledge base. If China ever wanted to challenge the then foremost powers of the day, America and the Soviet-Union, the Chinese workforce would need to make "great leaps forward" in both technical and managerial knowledge.**

## Population

**Its population and in particular the growth of its population, could become the nation's achilles heel. If China's population growth was not matched with economic growth and employment growth, then the resulting mass unemployment would cause mass poverty, civil unrest and a revolt against the rule of the Communist Party.**

The reformists' view was that developing China economically was not just an aspiration but necessary. This comprehensive analysis of China's state of affairs was translated into policy in 1979 and saw the birth of China's 'open door economic policy' and the abandonment of communism. The CCP recognised that it had failed to develop the nation

and the years under Mao were leading to questions into the legitimacy of the CCP. China's strength on the eve of its development was its huge population and large labour force. They were not particularly skilled in modern methods, but such a large labour force if used correctly and deployed into the right areas could lead to a huge increase in production.



# 'Open and Reform'

China's development began in 1978 and has come to be known as 'open and reform' as China was a closed nation with the state owning all assets. Virtually all assets were in state hands be it land, agriculture or industry. China needed to open to the world as being closed was a huge failure, it also needed to reform which meant it needed to create a private sector.

The first reforms began in agriculture in 1978, which was natural as it employed nearly 75% of the countries workforce. At the time the countryside was impoverished and overpopulated due to two decades of bad policy. Beginning in the 1950s private ownership of farmland was abolished and agriculture was organised under communes and divided further into smaller collective units. In practice this meant farmland was owned by the people as a whole in a town or village and administered by the village authority or town council. These communes were ordered to produce as much grains as possible with little scope for other cash crops. The state procured this grain at low prices which was designed to minimise the cost of staple food for people living in the cities. Stringent passport controls made it impossible for people to move from the countryside to the cities, unless they were in the army.

The strategy of low grain prices, a strict policy of central government determining production and a strict policy of restricting population movement was a huge failure. In 1978 grain production was the same as 1955. The restrictions on mobility and the rural share of national production increased to 82% by 1978. The entire basis of agriculture needed to change and it began in a village in Anhui province in 1978 where a group of farmers got together in secret and signed an agreement to dissolve their collective and divide up their farmland into individual plots. This innovation spread quickly and the provinces party secretary, Wan Li realised he was facing a powerful revolt against a failed system. As a result he promoted the new system to other provincial leaders, who also adopted it. At the December 1978 Party Plenum the new rural experiment was given a blessing including the raising of agricultural prices. By 1982 all communes were disbanded and returned to family farming.

The result was spectacular. By 1984 grain output was over 400 million tons. Oil seeds, which are important to China as all cooking involves frying grew 15% per year. Farmers were now free to produce as much as they wanted alongside governments quotas. This led to an increase in farmers income leading to investment in farming equipment and fertiliser, stimulating new industries. As farming revenues increased so did their savings, which were recycled into lending for other enterprises. Today China is the world's largest agricultural producer, it produces more rice than any nation in the world. All these factors set of the first wave of Chinese economic development.





# CASE STUDY: The Tiananmen Square Protests

In 1989 the CCP faced a major revolt against its power which could have derailed China's economic development. The first reforms in China took place in the rural areas and disproportionately favoured farmers as agricultural production grew rapidly leading to an increase in wealth to rural areas at the expense of urban areas. The open and reform period during the 1980's also saw a period of great intellectual fervour. Many Chinese began traveling around the world and the CCP sent Chinese officials and CCP supporters around the world to learn how other countries had developed and bring this knowledge back to China. For the first time since 1949 both students and scholars began to travel abroad in great numbers. This naturally led to much discussions about alternative political systems, which the CCP surprisingly tolerated. Many not only saw the high living standards in Europe and the US but even much closer to home in Hong Kong.

In this backdrop inflation (especially food inflation) regularly hit double digits due to the huge increase in agricultural production, in 1988 inflation was running at 30%. This was having a huge impact upon urban dwellers' disposable income. Students were also coming out of urban universities with little employment prospects. China's State-Owned Enterprises (SOEs) were not creating enough jobs at the time. There was widespread anger over government officials who



would buy up goods at low state-plan prices and sell them at much higher prices.

All these issues boiled over on 4 June 1989 as over a million Chinese urban dwellers took to the streets to protest. The protests were forcibly suppressed after Chinese Premier Li Peng declared martial law. Troops with assault rifles and tanks fired at the demonstrators trying to block the military's advance towards Tiananmen Square. The number of civilian deaths was internally estimated by the Chinese government to be above 10,000.

Reformers in the communist party regrouped and coalesced around a strategy that shifted the centre of reforms from the rural areas to the urban areas. The early reforms favoured the rural areas as this was where most of China's population resided. But party leaders drew the lesson from the 1989 protests that the greatest threat to the CCP's hold on power came from the cities. So, it was now necessary to concentrate on reforms there.





# Special Economic Zones (SEZs)

When Deng Xiaoping took power in 1978 he took over an economy that suffered from numerous problems. The country was effectively stuck in the 1950s, lacked technological development and relied upon capital intensive industries. Production of consumer goods was low and basic goods such as bicycles, clothing and electric fans were rationed. China was a poor country, with little capital but a huge labour force. All industry was in government hands and State-Owned Enterprises (SOEs) had no incentive to improve efficiency.

In 1980, Beijing created the first Special Economic Zones (SEZs) in the coastal Guangdong and Fujian provinces, designed to attract foreign investment in low-end manufacturing by offering cheap land, labour and a variety of tax and other incentives. Success in the southern cities allowed Beijing to expand economic reforms, first to the Yangtze River Delta area and later to cities along the Yellow and Bohai Seas. For most of the last 30 years, these coastal clusters acted as Beijing's experimental (and carefully monitored) interface with the outside world. The coastal zones would ultimately, Deng hoped, generate the wealth necessary to make development of China's vast, poor interior possible. In doing so, they would ensure social stability and by extension, the Communist Party's grip on power.

The SEZs were so successful that in 1993, 2000 more were

introduced. These SEZ's allowed foreign investment and technology into the country and became a new source of wealth for China. It resulted in China becoming an export-oriented economy and the world's workshop. China's trade and investment reforms and incentives led to a surge in Foreign Direct Investment (FDI) beginning in the early 1990s. There were reportedly 445,244 foreign-invested enterprises (FIEs) registered in China in 2010, employing 55.2 million workers or 15.9% of the urban workforce. The use of Foreign Direct Investment (FDI), greatly aided economic activity and job creation, it also allowed for foreign technical and managerial knowledge into China. This is why to this day all foreign companies in China are forced to transfer technical knowledge.

The 2010 US-China Economic and Security Review Commission, which advises the US Congress on China related policy issues, confirmed this, regarding China's strategies for developing its aviation industrial base it said:

*"Beijing's strategies include the government's heavy political and*

*fiscal support for China's aviation manufacturing industry and the requirement for foreign aviation firms to provide technology and know-how offsets in return for market access."*<sup>12</sup>

Many of these policies echoed measures that other Asian nations had implemented on their own paths to development. To make itself competitive with its neighbours, the country had to entice foreign companies to bring their operations — and with them, their capital and technology — to China. Foreign direct investment into China soared as Beijing welcomed foreign businesses into the country. Under the resulting arrangement, China's exports consisted mainly of foreign-branded products, rather than the domestic goods that Japan and South Korea grew to rely on from firms such as Toyota and Samsung. Like Japan and South Korea, China gradually moved up the value chain with its industrial manufacturing, progressing from light industry, such as textile production, through to electronics and on to high-tech assembly.

*Special Economic Zones (SEZs) - 1982*



# Infrastructure

If China's open and reform era was to attract foreign companies, it would need to develop the infrastructure to link the vast country and allow manufacturers to trade. Roads, ports, power plants and telecommunication networks were constructed in order for manufacturers to move their production facilities to China. In the 1980s, China also launched major efforts to build dams, irrigation projects and highways. The "Food-for-Work" program, which offered free meals to workers, promoted highway construction in rural areas. Between 1994 and 2000, some 26,100 miles - about 745 miles a day - of rural highways were built a year. In 1979 China had a mere 53,000 km of rail, in 2016 this exceeded 125,000 km, the longest high speed rail network in the world.

On the eve of the open and reform era in 1978 only 18% of China's population was living in urban cities. This share had remained static since the 1950s. From 1978 to 2013 China's urban population increased from 172 million to 731 million, an increase of 559 million. Today China's urban population is 810 million - 58% of its population. To put these numbers into perspective, China has had to build infrastructure, properties, schools, and whole towns for 800 million former farmers who moved to cities. China needed to construct a New York and Boston every year for

35 years with the urban population growing by 16 million every year.

What China achieved is unprecedented, it created 25 of the world's 100 largest cities, today China has 183 cities with populations in excess of 1 million, 15 are megacities, which are defined as having populations in excess of 10 million.

What drove this was the SEZs and factories the government created around the main cities. With wages being higher in these new areas than traditional farming, many left their farms and their families to work in the new factories. The SEZs were created for foreign companies to take advantage of China's huge labour force. As the numbers increased from the 1990s these workers needed to be housed, needed roads, sewers, water lines, electrical lines and telephone lines. The construction of all this infrastructure created more jobs and drove more people to the cities. This process then stoked demand in iron, steel, aluminium, copper and other minerals, which are essential to building infrastructure. The housing market was also privatised in the late 1990s which led to the biggest ever housing boom in world history.



***“What China achieved is unprecedented, it created 25 of the world's 100 largest cities, today China has 183 cities with populations in excess of 1 million, 15 are megacities, which are defined as having populations in excess of 10 million.”***



# State Owned Enterprises (SoEs)

The Chinese government's main tool to direct the economy has been through large State-Owned Enterprises (SOEs). Today 159 large SOEs provide the key inputs from utilities, heavy industries and energy resources that facilitate the private sector.

When the People's Republic of China was established in 1949, the country was on the verge of bankruptcy. No infrastructure to speak of existed, industrial capability was minimal, education and healthcare were scarce and social security was non-existent. But China was a country with 20% of the world's population and 7% of the world's arable land, but its agriculture and energy resources were underdeveloped. The government nationalised almost the entire industrial economy by taking over the previous state-owned companies, subsidiaries of foreign firms as well as private companies. Two categories of ownership were created along the Soviet model: ownership by the state and ownership by the people, often called collective ownership. By 1958, the state sector accounted for 89% of the industrial output. On the eve of the economic reforms in 1978, the SOEs accounted for 80% of the total industrial output.

SOEs under Mao had little discretion over their business operations. Production, purchase, sales and even wage rates were all decided and allocated by the government. All of the materials needed were allocated by the government, all of the capital was funded either by government or government-owned banks and most involved subsidies. The output of products and services were allocated by the government as well. The SOEs' profits were remitted to the state and the losses were subsidised by the state. Under this system, SOEs did not have autonomy for decision-making nor incentives for effective management.

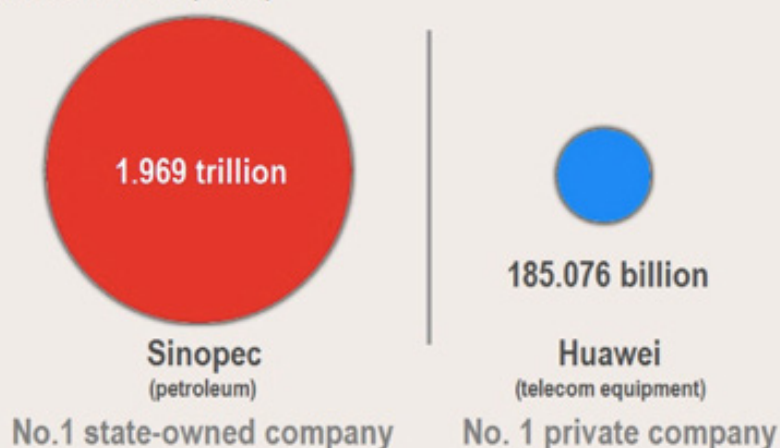
Despite all the talk of reform, SOEs have flourished throughout the 1980s and helped form the foundation of China's economic miracle. Beijing in the

1990s dismantled the larger state-owned enterprises, breaking them into various competing companies under the guidance of state-backed shareholders. By 2017, the assets of these enterprises reached 72 trillion yuan (\$10.4 trillion), up more than tenfold from 2003 and almost equivalent to China's total GDP for that year. Thanks to easy loans and unfettered access to government funding and assistance, these giants have been able to amass assets in areas where their private and foreign partners were either restricted or found it harder to compete. Since 2013, SOEs have received more than 60% of all new loans in China each year, peaking at 78% percent in 2016. China's domestic market developed largely behind barriers that protected national firms from outside competition, while also letting foreign technology into the country as part of Beijing's strategy to attract outside investment.

## How big is the state-owned sector?

Huawei, the largest Chinese private enterprise, generates only **one tenth** as much revenue as Sinopec does. Huawei ranks the **39th** among the top 500 Chinese enterprises.

Revenues in 2010 (RMB)



## Ranking of enterprises:

Company names	Revenue in 2010	Rank
Sinopec	1.969 trillion	1
PetroChina	1.721 trillion	2
National Grid	1.529 trillion	3
⋮	⋮	⋮
Huawei	185 million	39

# Finance

At the heart of China's economic development has been the nation's banking system. In China the government used the national banking system to serve the Communist Party's objectives. The nation's banking industry was used to develop the coastal infrastructure and then further in the interior in order to develop the nation and also to aid the nation's economic development. The managers of China's state banks are still drawn from the ranks of the Chinese Communist Party cadre system, which enabled the party to exert influence over bank lending. In 2015, the top five largest banks in China in terms of assets were SOEs. The percentage share of assets held by state-owned commercial banks, together accounted for 68.5% of total bank assets in China. Foreign participation in China's banking system is relatively small, accounting for 1.6% of total bank assets. SOEs account for 85% of all bank loans, who in most cases never repay their loans.

The nation's large savings were funnelled through banks to firms through subsidised rates. In order to qualify for such loans, firms were required to maintain high employment (in order to maintain social cohesion), while rates of return on capital, building brands, customer service and profit played no part of this process. Anyone who wanted to start a business, could get access to subsidised loans and this multiplied China's economic growth. These loans did not look at the ability of the debtor to repay.

The value of the yuan, the Chinese currency, was controlled by the Communist Party to placate the Chinese population. To make Chinese goods more attractive than Japanese and German goods, the Chinese government controlled the value of the exchange rate of its currency with the world, rather than let it float freely. China kept the value of its currency artificially low, which made it cheaper for the world to purchase consumer goods – far cheaper for the world than anyone else. By China undercutting the world, aside from keeping Chinese factories open, this also meant most Chinese citizens had a job. When Chinese citizens have jobs this deals with domestic social unrest which has long plagued the country. Chinese factories made little profits on the goods they exported, due to the low exchange rate the potential profit is lost. According to the Chinese Ministry of Finance, Chinese profits on their exports were about 1.7%.

China's economic rise has been built upon aggressive and cheap exports of consumer goods the world needs.

This is why China's rapid economic development has intertwined with the US. The US, the world's largest consumer, imports the vast majority of the goods that come out of China's production lines. This has resulted in the US trade deficit of \$300 billion with China. As a result US dollars end up in China, which today is over \$3 trillion. Such huge reserves have resulted in China purchasing US treasury bonds, which funds America's massive trade deficit. This has now created the problem that President Donald Trump is trying to resolve.

By the turn of the 21st century China's economy had turned around over 150 years of economic mismanagement. The huge industrial growth, manufacturing growth and growth in exports, all required energy and raw materials. China came to consume mind-bending amounts of materials, energy and food.





# China in the 21st Century

Until the early 1990s China was an oil exporter, exporting modest amounts of oil in the Asia-Pacific. By 1993 with China's rapid economic growth in full swing its internal demand far exceeded its domestic production capabilities and ever since China has relied more and more on foreign oil. Oil acquisition is now a process of investment in foreign lands and a creation of an internal oil reserve in case of emergency; 85% of Chinese imports arrive by sea, including most of its oil imports. As a result, China has been forced to develop a robust military capability as a blockade would cripple the nation. As China tests its new capabilities in the East and South China seas, it remains painfully aware that any extended and serious confrontation with the US Navy would likely result in China's sea lane supply and communication effectively being lost.

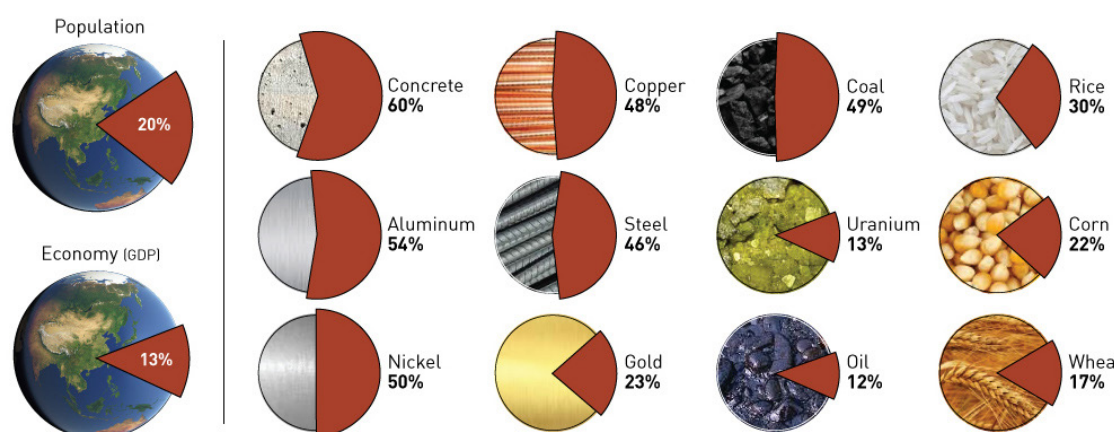
China's energy landscape is dominated by one fossil fuel - coal. Coal comprises around 65% of China's total energy consumption. China is today consuming an estimated 4 billion tons of coal, this is half of the world's total. Hydropower currently provides 12% of the country's power. Most of China's hydropower comes from the Tibetan plateau and surrounding provinces, the size and mountainous terrain of which make building power infrastructure both difficult and expensive. Like coal, hydropower is hampered by the remoteness and ruggedness of south-western China's geography. This is why China is investing massively in renewable energy.

The global economic crisis that began in 2008 began to show the strains of the country's low wages high exports model. The economic downturn in Europe and the US - China's two main customers, led to a drop in consumption and exposed China's need for continued exports. China's SEZ's allowed foreign investment and technology into the country and became a new source of wealth for China. But it made the country an export-oriented economy and dependent on foreign countries to continue importing from it. Therefore, whatever the size of China's currency reserves, no matter how cheap its labour force or its technological developments, China came to rely on foreign nations to import from it and physically ship them. The world came to import from

China at the cost of closing down their own factories, as long as no other nation produced the world's goods cheaper than China. The economic crisis brought to an abrupt end, three decades long export boom that the Chinese government micromanaged through years of systematic wage repression and huge subsidies. As a result of the crisis, the portion of China's GDP tied to exports collapsed, from nearly 40% in 2007 to below 24% today. To avoid economic collapse Beijing kept the economy on life support through massive expansion of state-led investment into housing and infrastructure construction. This created a housing boom leading to huge zombie towns, where high rise apartments were created at a colossal scale, but they were sitting empty as ghost towns.<sup>13</sup> This was not sustainable and Chinese leaders recognised this intervention could not be permanent and needed to create a domestic consumer model which makes domestic consumption the economic engine and reduce the dependency on exports. In parallel to this, China launched two new initiatives to maintain the country's position for the foreseeable future.

- Whilst British and US power rested on their control of the oceans, Xi Jinping announced in 2013 a plan called 'One Belt, One Road' initiative (OBOR) a plan to revive the old Silk route. At 4,000 miles long, the Silk Road passed through a chain of empires and civilisations and connected China to Europe. China planned to revive the Silk Road with modern transit corridors. At a cost in excess of \$1 trillion this would include high-speed rail lines, modern highways, fibre optic cables, energy pipelines, seaports and airports. The plan would link the Atlantic shores of Europe with the Pacific shores of Asia. This grand plan was to give industrial sectors such as steel and cement production an outlet to offload their excess materials and capacity. But more importantly trade routes were to be mainly land based rather

## CHINA CONSUMES MIND-BOGGLING AMOUNTS OF RAW MATERIALS



than sea based.

- In 2015 'Made in China 2025,' was announced as a strategic plan aimed at increasing China's competitiveness in cutting-edge industries and moving the country's manufactured goods up the value chain. Its aim was to cut its reliance on foreign technology and a core goal of Made in China 2025 is to increase the domestic content of core materials to 40% by 2020 and to 70% by 2025. Made in China 2025 stands at the heart of the trade war between the US and China.

By 2018, China was not just internally united and controlling its buffer regions, it had its coastal areas firmly under control and was pushing out. China after nearly two centuries has developed an economy which allows it to fulfil the basic needs of its large population as it now has an economy which can achieve this, something that has been sorely lacking for the last 150 years.

China's rapid economic rise has now created a new imperative, one that shifted China out of what had been a near self-reliant capability and into one that left China vulnerable to international involvement. China now has a fourth imperative:

- **Protect China's strategic trade routes, resources and markets from foreign interference.**

China's economic success has been built upon importing raw materials, commodities and energy from the world. It has an economy that is based on adding value to this by converting them into exportable goods to the rest of the world. China is dependent on the global economy, global markets, sea routes and infrastructure. China must secure its vulnerable supply lines through expanding its military presence and extend its international presence. This naturally brings it into conflict with the US, the global superpower.

China was able to increase productivity, dramatically, in a couple of decades through large-scale capital investment, financed by the country's large domestic savings and foreign investment via the SEZs. The reforms carried out by the Communist party under Deng and carried on after him led to a functional economy which boosted output and increased resources for additional investment in the economy. Production was decentralised, which allowed the Chinese people to finally share in the wealth in the

economy. Under Mao almost all production and profits were state property. But in post Mao China, production led to substantial growth in Chinese household savings as well as corporate savings resulting in China's gross savings as a percentage of GDP becoming the highest among major economies. The large level of savings enabled China to substantially boost domestic investment.

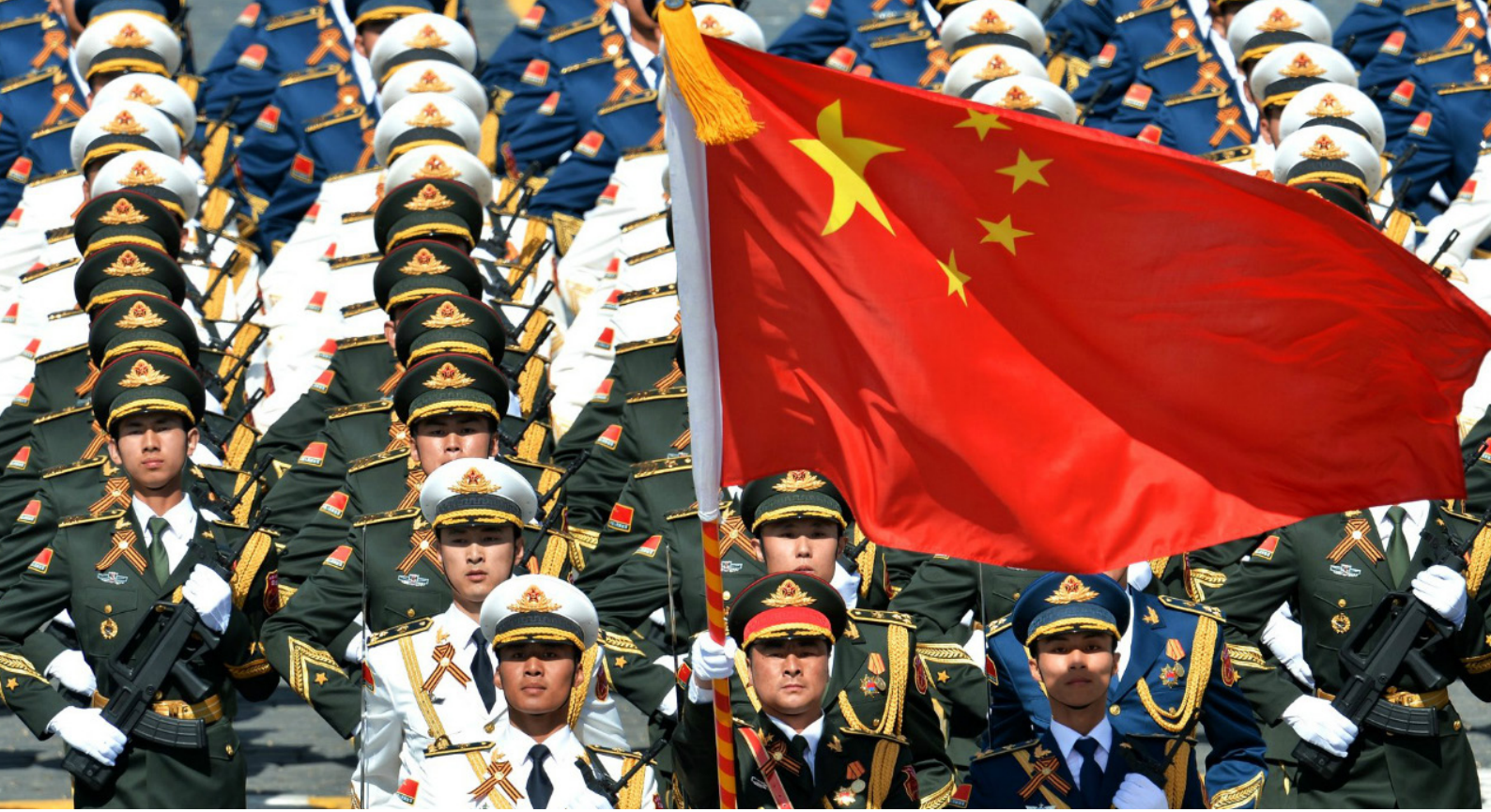
Reforms in China developed gradually, starting in the rural areas with the household responsibility system and township and village enterprises. Steps to open the economy to foreign trade and investment only started to play a significant role in the 1990s. Financial sector and State-Owned Enterprises (SOE) reform was also gradual, gaining momentum only in the mid-1990s. The country's motto was "crossing the river by feeling the stones", i.e. partial reforms in an experimental manner, often starting in a few regions and expanding them upon proven success. A broader strategy emerged only in 1993, with the decisions of the Third Plenum of the 14th Central Committee, but this too was implemented gradually.

Whilst many have called China's economic model 'state capitalism', the reality is China has not adhered to any consistent and ideological model of economic development; reform in China was driven by pragmatism and a piecemeal approach to instigating and managing change. China focused on export-oriented growth and gradual liberalisation of certain markets combined with an outward looking foreign investment strategy. What China has been very successful at, is the rolling out of its policies. All major reforms have been the result of a process of trial and error on a limited scale.

Successful experiments are then scaled up and rolled out across the country. Thus, the establishment and success of four special economic zones in the 1980s was a crucial precursor to its expansion.

***“China was able to increase productivity, dramatically, in a couple of decades through large-scale capital investment, financed by the country's large domestic savings and foreign investment via the SEZs. The reforms carried out by the Communist party under Deng and carried on after him led to a functional economy which boosted output and increased resources for additional investment in the economy.”***





## China's Military Heft

If China wanted to secure its economic success it would need to develop a military fit for this purpose. After WW2, China's military was built upon having more troops than the enemy had bullets, a large ground force, poorly equipped with low tech, to fight a war to drain an invasion of the mainland. The PLA would compensate for its technological inferiority with its geographic space.

China made major advances in strategic weapons, testing its first nuclear weapon in 1964 and developing a range of land and submarine-based weapons. The 1950s, 1960s and 1970s were a period of frequent conflict and confrontation for China. After the armistice on the Korean peninsula in 1953, China remained engaged in confrontations with the US and Taiwan; fought a border war with India in 1962; engaged in a confrontation with the Soviet Union that peaked with the 1969 clashes on the Manchurian border; supported North Vietnam in its wars with France, the US and South Vietnam; and fought its own war with Vietnam in 1979. By 1978, two years after Mao's death, Deng Xiaoping had taken control of China's government and gradually introduced a programme of economic opening and improved relations with the West. This gave China access to Western commercial markets, investment, technology and military assistance. At the same time, China deemphasised military spending, with the economy being the priority.

At the end of the 1980s and throughout the 1990s, the Chinese military received several significant shocks. The collapse of the Eastern Bloc and the dissolution of the Soviet Union placed China's Communist Party on the political defensive. In response to the Chinese government's use of the army to violently suppress demonstrations in 1989, in the Tiananmen Square, the US and Europe imposed arms embargoes and economic sanctions, halting the military and technological infusion China had been receiving since 1979.

In early 1991, the US overwhelmed the Iraqi military, which had been organised and equipped much like China's. Subsequent developments in Taiwan also caused concern in Beijing. In 1996, China fired short-range ballistic missiles (SRBMs) into the ocean near Taiwan in an apparent effort to deter the election of a pro-independence government in Taiwan. The US signalled its intent to defend Taiwan against a Chinese use of force by dispatching two aircraft carrier battle groups to the waters around Taiwan. The Chinese military's inability to locate, much less attack, these aircraft carriers demonstrated its inability to successfully use force against Taiwan should the US intervene. In 1999, the US-led NATO bombing campaign against Yugoslavia (Operation Allied Force) once again demonstrated the increasing power of US precision-strike capabilities. The war also highlighted the erosion of international norms of absolute sovereignty in domestic affairs, with many Chinese viewing the bombing of the Chinese Embassy

in Belgrade as an intentional hostile act.<sup>14</sup>

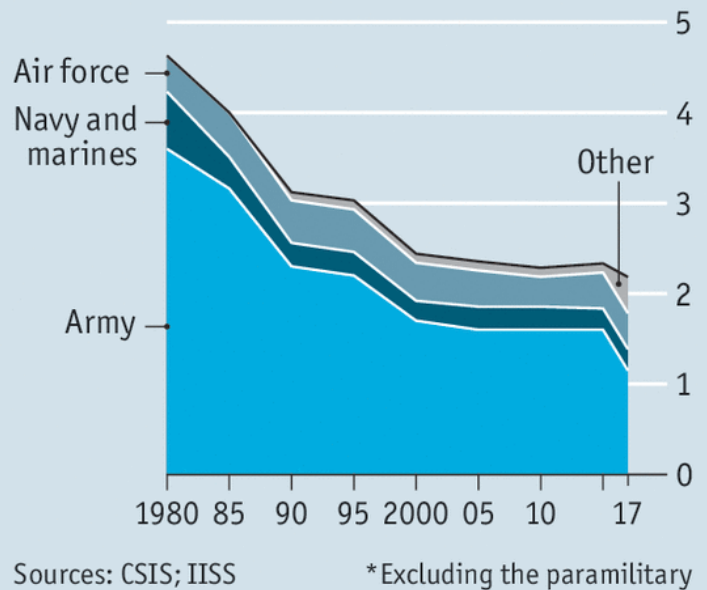
As a result, China began an armed forces modernisation programme in order to bring them on par with the world's powers. Mao's doctrine of 'human wave attacks' - having more soldiers than your enemy has bullets was replaced with a relatively smaller armed force emphasising new technologies. Recognising the need to reform China has ever since been undergoing a Revolution in Military Affairs (RMA), which emphasises a C4ISR (command, control, communications, computers, and intelligence) communications, characterised by the wholesale shift to digital, secure communications via fibre-optic cable, satellite, microwave, and encrypted high-frequency radio. Since the 1990s, China has focused on and invested in a major reorientation of its military from a massive land army focused on territorial defence to one that emphasises naval and air capabilities to protect China's interests in the East and South China seas and beyond into the Western Pacific. This has included expanding China's reach and a focus on anti-access and area-denial capabilities. China's military modernisation included acquiring and developing advanced weaponry, improving information technology and communications, heightening capabilities on sea and in the air and developing capabilities in new theatres such as cyber warfare and outer space. It also entailed improving Chinese forces' mobility, rapid reaction, special operations forces and ability to conduct combined operations between different military services.

Today, China's leaders have sustained this ambitious and broad-based military modernisation programme intended to transform the military into a modern force. China fields the world's largest armed forces, with a standing army of over 2.2 million personnel. China's ground forces constitute the largest branch of 1.7 million active personnel. China's ground forces continue to undergo significant modernisation and restructuring to deal with potential threats and enhance its land warfare capabilities. Front line troops such as special-forces, marines and paratroopers are being given priority in receiving modern weapon systems and equipment. Other areas of improvement are its battlefield C4ISR capabilities, with the introduction of satellite communications, wireless networks, and digital radios, army commanders are now able to maintain constant communications with their front-line units while on the move.

China's ground forces are transitioning from a static

## Less is more

China, active armed personnel\*, m



defensive force deployed across seven internal military regions oriented for positional, mobile, urban, mountain offensive campaigns, coastal defence campaigns and landing campaigns to a more offensive and manoeuvre-oriented force organised and equipped for operations along China's periphery.

China's ground forces have moved towards smaller and more mobile forces. It has disbanded dozens of heavy divisions and created smaller brigades - producing a core of mobile mechanised forces and motorised functions. China has also inducted 'special mission battalions' for quick-reaction missions and rapid deployment. The integration of the civilian transport network into ground forces logistical infrastructure has provided efficient troop transport and dramatically increased the mobility of ground formations.

China's ground forces still face significant challenges in shifting from internal security to external expansion. China's army is primarily configured as a domestic security force, which has been a necessity due to the country's history of internal tensions. Having been designed for internal security, China's ground forces are doctrinally and logistically disinclined towards offensive operations. Using a force trained for security as a force for offensive operations leads either to defeat or very painful stalemates. The PLA was built to control China, not to project power outwards. Since the 1980s the Chinese have been attempting to transfer internal security responsibilities to the People's Armed Police, the border forces and other internal security forces that have been expanded and trained to deal with social instability. But despite this restructuring, there remain enormous limitations on China's ability to project military power.





# China's Dragons

Historically China's military was a ground-based army, consisting of a large number of soldiers. The Air Force and Navy played a secondary, almost neglected role. As a result, both China's navy and air force were starting from a very low baseline when modernisation was targeted. The People's Liberation Air Force (PLAAF) had a limited role of air defence over the Chinese homeland.

The Chinese air force operated more than 5,000 fighters and attack aircraft. Virtually all were based on 1950s-vintage Soviet MiG-17s, MiG-19s, and MiG-21s. The Air Force and Navy also operated some 430 light and 145 medium bombers, also based on 1950s Soviet designs, but with the exception of some bombers that carried torpedoes or anti-ship cruise missiles (ASCMs) China's bombers and attack aircraft were equipped only with unguided gravity bombs.

Today, China's air force remains in transition from two decades of modernisation. The sheer size of China's geography requires a large fleet of modern fighters, bombers and significant airlift capability. China has focussed on reducing the size of its air force and focusing on quality and capability. Since the late 1990s, China has begun producing progressively more-advanced aircraft in a strategy to replace its ageing fleet with indigenously developed platforms. China has increased the number of its modern, fourth-generation aircraft from 50 to 600 since 2000, even though it has reduced the size of its overall Air Force. Military modernisation is about smaller but more up-to-date platforms, and this is what China has been pursuing.

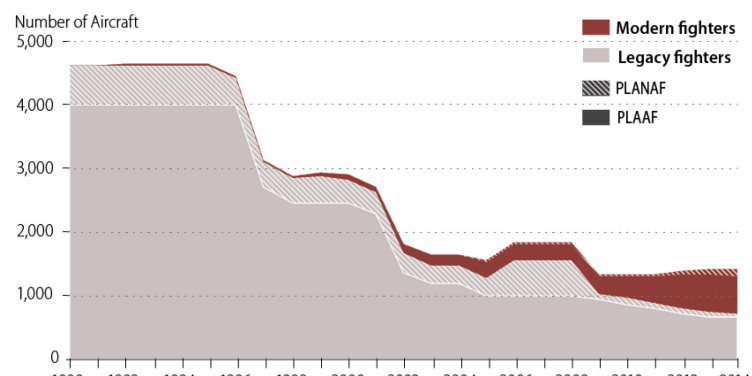
China has been able to achieve all of this by copying platforms it acquired and from stolen intellectual property.

In the 1980s, the US partnered with the Zionist entity to develop a new combat aircraft based on the F-16. But as costs rose, the US pulled out of the deal, leaving Zionist entity's "Lavi" fighter unfinished. Years later American officials discovered that the Zionist entity sold the Lavi's development plans to China. The J-10 is what China was able to build with this information. An updated version of the J-10 entered service in 2017 with an advanced fire control radar array, an increased use of composite materials to reduce weight and a number of other domestically developed updates that aim to keep the J-10 capable for decades to come.

As the Soviet Union neared collapse in 1989, China seized the opportunity to secure the production line for the Sukhoi Su-27, an air superiority fighter developed to counter American jets like the F-14 Tomcat. China was able to develop the J-11 from this which improved upon the Su-27 design. The Su-27 brought advanced avionics systems and fly-by-wire technology that China was also able to incorporate into later platforms. In 2000, Russia sold China a number of advancements they had made to their own Su-27 platform and China's subsequent effort to incorporate them alongside domestically developed technologies has since resulted in the J-16—a modified and updated Su-27.

The J-20, China's first fifth generation jet is based on the F-22, whose designs were stolen by the Chinese national, Su Bin, who was sentenced to 46 months in federal prison for his crime.<sup>15</sup> The J-20 and F-22 are largely similar aside from the addition of forward canards on the J-20. Whether the J-20 has the F-22's stealth and radar absorbent material remains to be seen. The F-35 Joint Strike Fighter was also compromised by Su Bin, leading to China's J-31 programme. This jet, still under development, possesses a greater operational range and larger payload capacity than the F-35.

China's air force is modernising, but half of the air force combat aircraft derive from 1950s and 1960s designs. For the moment China lacks the long-range capability needed for a nation the size of China. The bombers that China produces are medium bombers that are based on a 1950s-era Soviet design. To date, China has also been unable to produce and indigenously design a jet engine. The main reason why China does not produce heavy bombers or jet transports is because it has been unable to produce an indigenously designed and developed jet transport engine. Turbojets lack the power and fuel efficiency needed to propel large aircraft over long distances. No Chinese-produced engine has yet been accepted for installation on a long range and heavy plane.<sup>16</sup>



*PLA Aircraft in numbers*



# China's Dragons

China's first fifth generation jets are based on designs were stolen by the Chinese national, Su Bin, who was sentenced to 46 months in federal prison for his crime in 2016



The J-20, China's first fifth generation jet is largely a copy of the American F-22



The F-31 is a direct copy of the F-35



The J-16 is a modified and updated version of Russia's Su-27



# China's Navy

The equipment of the People's Liberation Army Navy (PLAN) was similarly outdated. It had about 80 attack submarines, some of which may not have been fully serviceable and all but five were conventionally powered diesel electric boats. Three-quarters of its attack submarines were locally built versions of the Soviet Romeo class, which entered service in the 1950s. All but two of the remainder of its diesel boats were of the only slightly more capable Ming class. China's five nuclear attack submarines were extremely noisy. It's only nuclear ballistic missile submarine (SSBN), is noisy and had never conducted an operational patrol. PLAN surface ships consisted of 57 destroyers and frigates, only three of which carried even short-range surface to air missiles (SAMs), rendering China's surface ships virtually defenceless against modern anti-ship cruise missiles (ASCMs).

Since the late 1980s, China has been seeking to develop a 'blue water' navy force capable of operating in the regions beyond its offshore waters. The modernisation of its navy has become all the more important as China relies on the Sea Lines of Communications (SLOC) to secure the country's global network of energy resources and trading activities. China is aiming to develop a relatively modernised naval force that can operate within the first island chain, a series of islands that stretch from Japan to the north, to Taiwan, and Philippines to the south. In the second step, the Chinese navy aims to develop a regional naval force that can operate beyond the first island chain to reach the second island chain, which includes Guam, Indonesia, and Australia. In the third-stage, the navy plans to develop a global naval force by the mid 21st century.

Until the 1990s China's navy was barely a coastal defence force with little ability to challenge anyone. It was the weakest branch of its armed forces. But since then China has attempted to modernise and build its navy using an evolutionary rather than revolutionary approach. Beijing carefully and incrementally introduced new designs and equipment into the navy before proceeding to intensified shipbuilding.

At the beginning of the 21st century Beijing began producing new indigenous vessels, but many of the initial designs, such as the Type 051C destroyer, depended heavily on Russian and other foreign technology for their main armaments. At the same

time, China continued to purchase Russian warships, such as Sovremenny-class destroyers and Kilo-class submarines, as a hedge against the potential failure of their new designs.

In the first decade of the 2000s, China constructed small batches of each warship type; only after engaging in comprehensive testing for each type did the country slowly transition to improved designs. This decade of cautious experimentation gave the country's navy the confidence to settle on reliable models for high-rate production. Chinese shipyards rapidly rolled out the Type 054A frigate, the Type 039A submarine, the Type 052D destroyer and the Type 056 corvette, making the four classes of vessel the mainstay of the naval inventory. This production did increase the size of China's fleet and replaced ageing and obsolete vessels that had remained in the naval inventory for decades.

China has increased the number of modern destroyers, frigates, corvettes and diesel-electric submarines. The



navy has ambitious plans to develop new capabilities but doing so takes at least one or two generations. This is based on no major disruptions or pauses in the process. For the moment China does not possess a navy that can be at sea for long periods, far from its coast, conduct operations and achieve maintenance and all the complex logistics that comes with it. This is because China's navy still consists largely of smaller ships with low tonnage. Although it has many of these, even more than the US, the US on the other hand has larger vessels which give it more firepower and tactical ability. Its eleven aircraft carriers carry over 80 aircraft each on a continued basis around the world. Although China has made much progress, it is nowhere close to US capabilities and remains a

regional force, despite some operations further from home.

China has now commissioned into service its first aircraft carrier—the *Liaoning*, which is a refurbished ex-Ukrainian aircraft carrier, previously named Varyag, that China purchased from Ukraine as an unfinished ship in 1998. Although China is designing and building increasingly sophisticated warships, Chinese naval shipbuilders still need to import key components or modules, such as propulsion systems, navigation and sensor suites and major weapon systems, to outfit these vessels. Such a reliance on imported subsystems creates systems-integration challenges, as well as security concerns stemming from dependence on foreign suppliers.

Currently China's military lacks force projection beyond the Asia Pacific region. Its traditional military hardware is one to three generations behind the US and Russia. Considering these deficiencies, cyber warfare will provide China with an asymmetric advantage to deter aggression from stronger military powers as they catch up in traditional military capabilities. Cyber warfare would also allow China to leapfrog by means of technology transfer and exploiting adversary weaknesses. Chinese military doctrine places an emphasis on asymmetric attack. Cyber warfare epitomises this as a low cost means of levelling the playing field. Cyber-attack strikes at a superior adversary's weakness – in the case of the US, a heavy reliance on hi-tech computerised weaponry and a civilian population reliant on an unsecured computer infrastructure. The CCP openly states in its National Defence White Paper that it is seeking informationisation and modernisation of the PLA.

Over the next decade, China will construct next-generation nuclear submarines that emit far less sound, build new types of aircraft carriers equipped with catapult launch systems and expand its amphibious fleet with the introduction of Type 075-class amphibious assault ships. Supplementing the addition of this hardware will be a continued focus on the country's logistics fleet, which is key to conducting blue-water operations — sustained, long-range maritime operations over oceans and deep waters — and securing logistics bases around the globe. But for the moment China's military is heavily focused on defending its huge territory. This can be seen from the fact that 15 out of China's 18 ground force group armies are geared towards the defence of the homeland, only three group armies are geared

towards offensive operations and its these forces that take part in China's claim to the South China's seas, islands, reefs, shoals and banks.

China has made significant progress in modernising its armed forces and this has worried US policy makers who see China challenging its place in its region. The Chinese military started its modernisation drive from a very low position in the 1990s with an outdated navy and air force. Despite developments the balance of military power between the US and China is still predominantly in favour of the US. But on the current trajectory mainland China is secure and China is on the road to developing a military that can protect its global supply lines.

***“For the moment China does not possess a navy that can be at sea for long periods, far from its coast, conduct operations and achieve maintenance and all the complex logistics that comes with it. This is because China's navy still consists largely of smaller ships with low tonnage... Although China has made much progress, it is nowhere close to US capabilities and remains a regional force, despite some operations further from home.”***



# CASE STUDY:

## What Would an Invasion of Taiwan Look Like?

Taiwan is an independent nation, whatever the political rhetoric, and has its own armed forces, and China has no physical presence there. It would therefore need to conduct an offensive operation, landing forces on the island to occupy it. It would need to supply its troops there and establish logistical network for the duration of the occupation.

Any invasion of Taiwan by China will require amphibious warfare. Amphibious warfare is the most complex sort of warfare imaginable.

It involves achieving secure sea-lane control of the Taiwan Straits. This means transport vessels carrying troops and supplies require unimpeded movement, with relatively low rates of attrition, across the Straits. It also means transport systems leading to embarkation ports and the ports themselves,

must be secure from enemy air action or counter-invasion. The force that lands on the Taiwanese coast would have to be large enough to absorb casualties from counter-attack. The supply and reinforcement system would have to be robust enough not only to replace casualties but to build up the forces to undertake aggressive ground-combat operations. The Chinese will have to be able to supply a broad range of weapons systems, including armour, munitions, petroleum, oil and lubricants required to sustain high intensity combat operations. Finally, the Chinese air force will have to be able to establish air superiority over the battlefield.

China currently lacks sufficient sealift capacity to transport enough forces to conduct a credible mass amphibious invasion of the island. Even with the most optimistic estimates — which includes the increased number of Type 071 amphibious transport docks (six) and landing ships (60) — the Chinese could land no more than four divisions (about 40,000 troops) in a mass invasion scenario. Although China could bolster these numbers by sending subsequent landing waves, conducting airborne drops or mobilising commercial shipping, it is unlikely to overcome Taiwanese defences. This means there are serious question marks over China's military having the ability to achieve even the

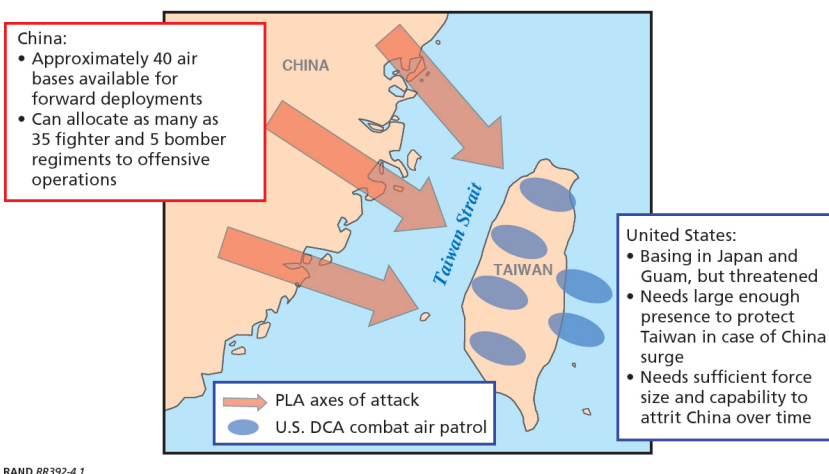
(or potentially based elsewhere in the theatre and operating with the support of tankers) and US aircraft carriers, which can be massed for operations, as was the case during operation Desert Storm. Thus, the question of a Chinese invasion of Taiwan is predicated on China's ability to suppress air activity originating in Taiwan, to force US naval forces out of effective operational range of the theatre and to render non-Taiwanese based aircraft ineffective.

The Chinese air force is not qualitatively capable of challenging US designed aircraft. It is not clear that China is in a position to secure its own airfields, within the Taiwanese theatre of operations, from US-

Taiwanese air attacks and cruise missiles. No operation against Taiwan could possibly take place unless China secured those bases. That means China will have to begin the campaign by trying to seize air superiority over the theatre from a much superior force. Otherwise, the invading fleet would be devastated.

China will literally need to project force over distance, hope to land successfully, penetrate Taiwan and ensure it continues to resupply these troops. Then there is the US factor which completely changes the dynamic. Although China possesses more personnel and equipment, the fact that it has to get these assets across the sea is the challenge. Irrespective of one's power, you still need to carry out the complex actions using the capabilities you have. Having military heft alone doesn't mean you can achieve victory, capabilities are needed and geography needs to be overcome.

Taiwan Scenario Air Campaign



RAND RR392-4.1

precondition for an invasion: sea-lane control. The current evolution of weapons systems is such that it is unclear that anyone can establish sufficient levels of sea-lane control in the Taiwan Straits to allow the movement of high value naval assets during a period of intense combat. High value naval assets are those assets that are indispensable for military operation, but are scarce.

China in making plans for an invasion of Taiwan, will have to calculate that it will be facing not only Taiwan's own air force, but US forces. These would include fighter aircraft sent to reinforce Taiwan

# Politics with Chinese Characteristics

For much of China's history in the 20th century it was closed off to the world and it engaged little with the international order. Even when it was communist, despite its claims of backing revolutionary movements to establish communism in the world, this never materialised

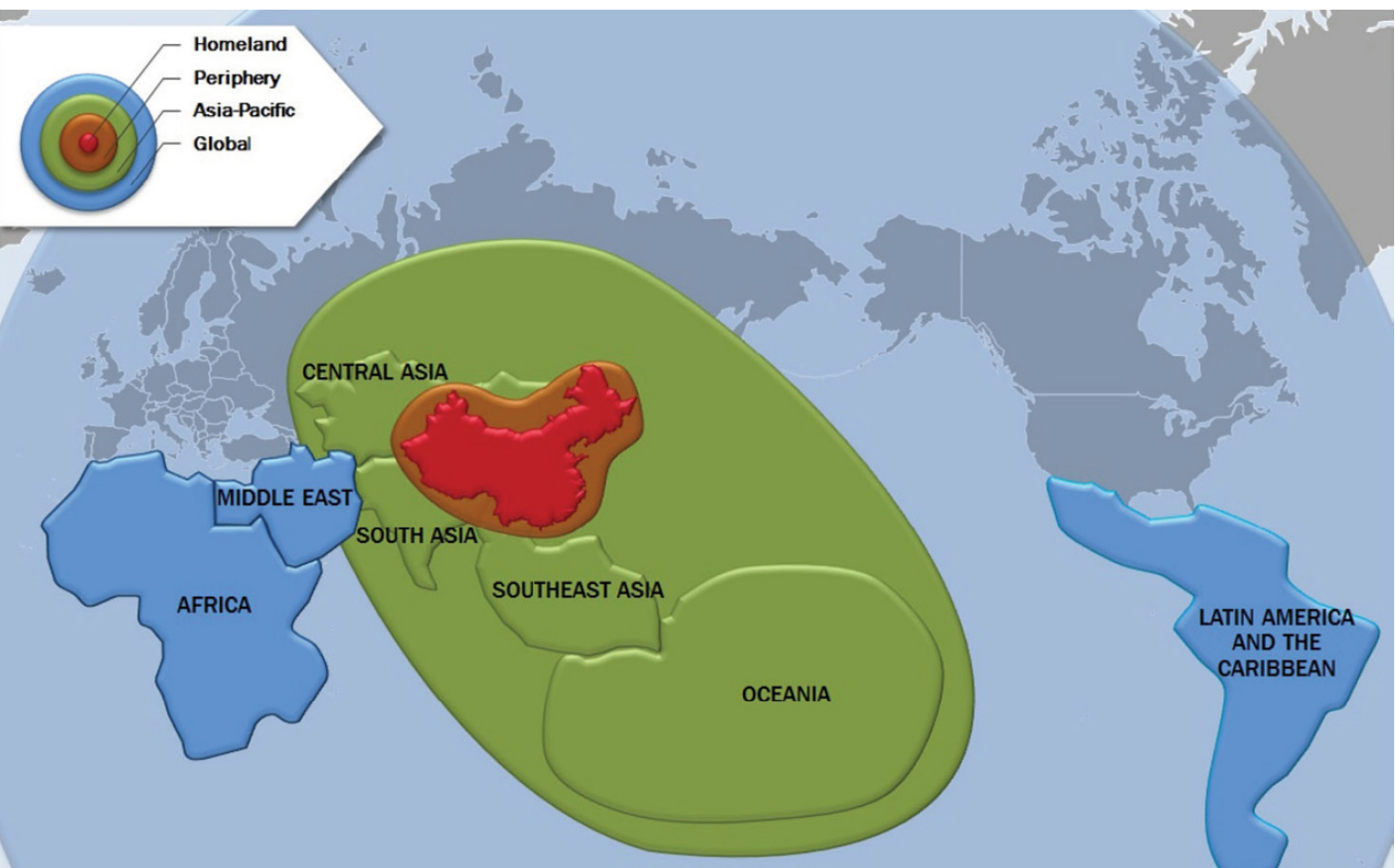
into much as China's efforts were extremely limited as it was focused on internal challenges. Once China opened to the US and then in 1979 its reform and open era saw it engage with the wider world. China sought to gain access and influence in developing countries through military aid, arms sales, and rewards for switching diplomatic recognition from Taiwan to the People's Republic of China. By the early 1990s, China invigorated and broadened its outreach to the world as its fast-growing economy required new sources

of raw materials and markets for its exports. China's political outlook is based around national territorial defence.

China's insecurity around its own periphery resulted in special attention to its own neighbourhood. China saw its security environment in terms of four concentric circles. The first and innermost ring encompasses China itself (including Taiwan, which it claims). China's second ring contains the territory and bodies of water directly adjacent to China's own land and maritime borders, including portions of Southeast Asia, Central Asia and South Asia. Chinese leaders believe that peace



on China's periphery is essential to domestic harmony and this leads China to seek extensive influence in these regions and limit influence by outside powers. The third ring includes China's entire Asia-Pacific (including portions of Southeast Asia, Central Asia, South Asia, and all of Oceania), while the fourth ring includes everything beyond Asia—the rest of the globe: the Middle East, Africa and Latin America and the Caribbean.





# **CASE STUDY: China's Political System**

China's political system is a bureaucratic-authoritarian one-party state. It is in principle highly centralised, but in practice substantially de-centralised. China's political system has evolved since 1978 from the cult personality of Mao Zedong where today decisions are made through consensus. Authority resides in no individual but in the Communist Party which sits atop the political system and selects leaders who are subject to term limits and mandatory retirement ages.

China's top leader holds three concurrent positions in order to be the supreme leader. General secretary of the communist party, chairman of the central military commission (which controls the army) and state president, a mainly ceremonial role that confers ultimate control of the government. A leader must hold all three positions, but especially the first two to exercise full control of the state. In 1992 at the 14th party congress Deng Xiaoping, who had been China's paramount leader since 1978 retired and transferred control of the party, military and government to the new president Jiang Zemin. In 2002 Zemin retired and ceded control of the party and government to Hu Jintao, he did not give up chairmanship of the central military commission for another two years. In 2012 Hu retired and Xi Jinping assumed control of the party, government and military.

China is a one-party state but rather than a tiny cabal of secretive leaders, it is a vast organisation of around 86 million members and reaches into every organised sector of society including the government, courts, the media, companies (both private and state owned), universities and religious organisations. Top officials in all these organisations are appointed by the CCP.

The party no longer attempts to control every individual's life as it tried doing the Mao era, but it does seek to heavily influence every sphere of organised activity. Whilst China is seen by many to be a highly centralised nation, the reality on the ground is local governments enjoy a high level of discretion and autonomy. A 2004 IMF study

found that in the period 1972-2000 the share of government expenditure that takes place at the sub-national level was 25% for democracies and 18% for non-democracies. In China from 1958-2002, this figure was 54% and by 2014 it reached a staggering 85%. For an authoritarian nation this level of fiscal decentralisation is extremely high.

China is run through a pyramid structure with several layers of bureaucracy between the top leaders and specialised agencies. Most of these layers lay within the Communist Party structure and often their activities are cloaked in secrecy. At the top of the pyramid is the standing committee of the party's politburo consisting of 7 members with decisions requiring consensus. This committee sits within a broader 25 member politburo, which meets several times a year and ratifies major decisions. Below the politburo are the 'leading small groups' which the party organises to coordinate policy on major issues.

Below this is the State Council, chaired by the premier, which is the highest organ of government and is equal to the cabinet in most national governments. Below the state council are the ministry level bodies the most important of which are the National Development and Reform Commission (NDRC), the Ministry of Finance (MOF), the Ministry of Commerce (MOFCOM), which also handles foreign policy issues and the Peoples Bank of China (PBC).

A lot of power is concentrated at the top of this structure, but Chinese leaders rely upon provincial leaders to come up with policy to execute such decisions, making provincial leaders important national decisions makers. Although China is run by a centralised command structure in practice it is decentralised, which is necessary due to its sheer size and population of the country. The CCP discipline and control of the bureaucratic appointment system throughout the country prevents China from splintering apart and enables the formulation and implementation of coherent strategies.

# The CCP - One Party State

**The CCP is the sole political party in China. It is a vast organisation of 86 million members (5% of the country's population) and reaches into every organised sector of society. A similar party in the UK would look like the following....**



**The appointment of the entire government cabinet, government ministers, the heads of the ministerial departments, heads of the non-ministerial departments, their deputies, the mayors of the major cities, all the regulatory bodies and the justices on the supreme court.**



**The appointment of the Chief executives of Royal Dutch Shell, HSBC, BP, GlaxoSmithKline, BAT, and 50 of the next largest companies in the UK.**



**The appointment of the editors of the Sun, Daily Mail, the Times, Daily Mirror and the Daily Telegraph. The bosses of the TV networks such as the BBC, ITV, Channel 4 as well as Sky.**



**The appointment of the presidents of Cambridge, Oxford, UCL, Imperial, Kings, LSE and other big universities and the heads of the Think Tanks such as the Adam Smith Institute, RUSI, Institute for Fiscal Studies, Chatham House, DEMOS and the International Institute for Strategic Studies.**





## South-East Asia

- **South-East Asia is China's biggest trade partner**
- **Most of China's global trade transits the region, China needs to maintain secure**
- **maritime shipment and Southeast Asia lines of communication**
- **China has unresolved territorial disputes with Vietnam, Philippines, Malaysia and Brunei in the South China Sea.**
- **The region is a critical link in China's Belt and Road Initiative**

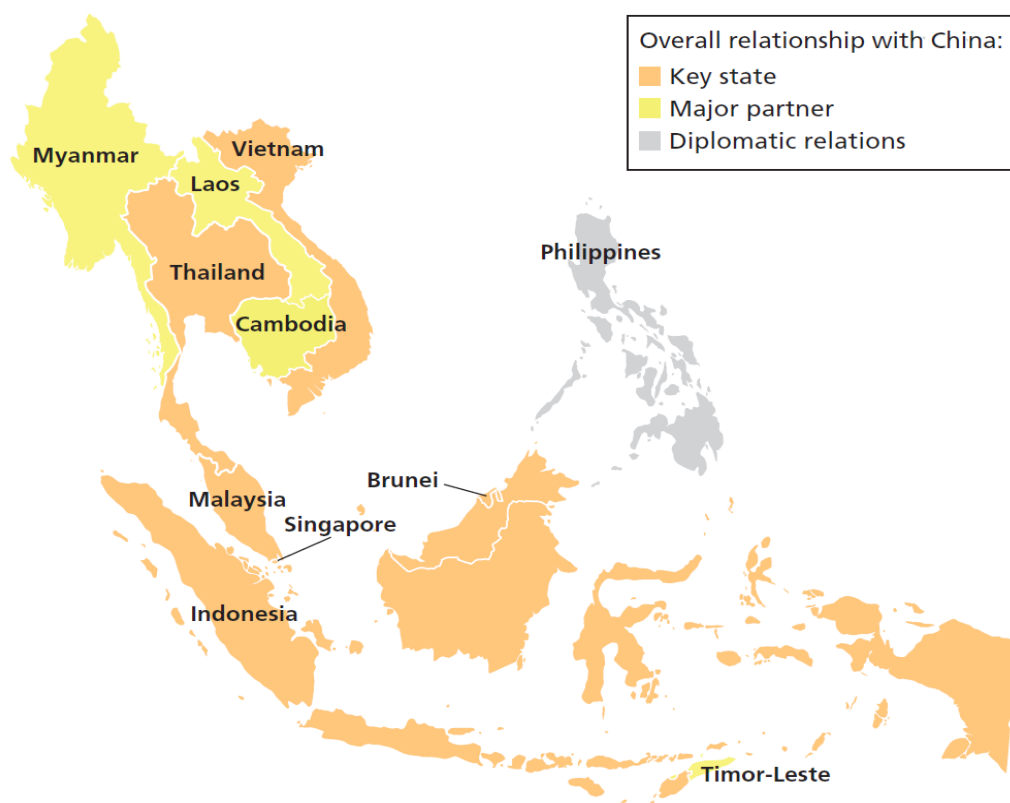
China's own region – South East Asia, is its most important region. China's economic engagement with Southeast Asia in the past decade has been greater than any other region in the world. China's trade with the region is weighted much more heavily towards two-way trade in manufactured items rather than by China's purchase of raw materials. Much of Chinese global trade transits the South China Sea and the Strait of Malacca, and China has significant interests to maintain by securing the trade and energy routes.

Beijing increased cooperation with its neighbours through greater connectivity and trade. China has staked claims in the South China Sea and aggressively pursued these claims by building artificial islands and laying claim to them. It has tried to balance this by promoting trade, investment, and other forms of cooperation with Southeast Asia.

It has done this by both bilateral and multilateral moves. In 1991 Beijing established relations with Association of Southeast Nations (ASEAN) which has remained its preferred multilateral vehicle for reaching out to Southeast Asia.

In the past decade, Beijing has steadily

increased its involvement in the region through a range of political, economic, and military means. Politically, China has continued to press its territorial claims while increasing linkages to the region to reassure the region that China's growing influence and territorial claims do not threaten regional stability. From 2003 through 2014, Chinese political leaders visited the countries of ASEAN 94 times, making countries in the region among the most visited across the world. Economically, China is advancing large trade and connectivity initiatives and has become ASEAN's most important trade partner. Militarily, China is selling arms to the region and has engaged in more than two dozen exercises with ASEAN countries. All of this has occurred as Beijing began engaging in significant land reclamation activities in the South China Sea from 2013.



# Central Asia

- **As China shares a border with Central Asia it needs to ensure stability, so instability doesn't spill in to China's buffer regions and effect China's national unity**
- **China has worked to maintain stability and secularism in the region to maintain its interests**
- **Chinese influence needs to increase in order to limit the influence of other outside powers**
- **China aims to promote and protect economic interests in the region, especially energy**

Throughout China's history, its northern and western frontiers have consistently posed the country's greatest geostrategic threats. By the 1990s when China had developed economically, its actions evolved to include security cooperation to the ramping up of economic interactions with Central Asia. Central Asia has been a high priority region for China since 1991 when Beijing first engaged with the newly independent post-Soviet republics. Beijing focused on developing a cooperative and constructive relationship with this bloc of neighbouring states.

China was confronted with six new and unattached Central Asian neighbours in the 1990s with the collapse of the Soviet Bloc and disintegration of the Soviet Union. Mongolia became a nonaligned state in 1989, while Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Turkmenistan all became independent states in 1991 and affirming the precise boundaries of its expansive land borders to the north and west was the highest priority. But while Russia's economy was in crisis in the early 1990s, the Chinese economy boomed.

China was thirsty for energy resources and commodities and the peoples of the six landlocked Central Asian states were hungry for inexpensive consumer goods. Beijing worked hard to resolve border disputes with Kazakhstan, Kyrgyzstan and Tajikistan. China

cooperated to demilitarise the border regions and develop confidence-building measures. These efforts led to the formation of an informal grouping dubbed the "Shanghai Five" in 1996 - China, the three Central Asian states and Russia. In 2001, this bloc of five states formalised their association in the establishment of the Shanghai Cooperation Organisation (SCO). The organisation in 2015 also included Uzbekistan as a member; Afghanistan, India, Iran, Mongolia and Pakistan as observer states and Belarus, Sri Lanka, and Turkey as dialogue partners. The SCO was the first multilateral organisation to be established by China. It allowed China to attempt regional influence, providing a way to get involved without overtly challenging Russia. Over the years Russia's presence in the SCO has come to focus on security issues and China on economic issues.





# South Asia

- **China wants to maintain stability in the region as it ensures internal Chinese stability especially for the Xinjiang region.**
- **Balance against India**
- **Protect China's burgeoning economic interests, including safeguarding trade and transportation routes and protecting Chinese citizens**

South Asia is geographically removed from mainland China. However in the 20th and 21st centuries distances shortened because of technological developments and mountain ranges have effectively shrunk and improvements in communication and transportation technology have enabled transnational ethno-religious identities to intensify. Advanced weaponry has put China and India closer than ever before in terms of ballistic missile striking distances. India has for most of China's history been a rival and as a result China has always backed Pakistan in the region.

Since the 1990s, China has expanded its South Asia policy well beyond simply India and Pakistan, paying more attention to other states in the region, including Bangladesh and Sri Lanka. China's broader economic interests necessitate taking a more comprehensive approach rather than perceiving South Asia only in terms of the India-Pakistan. Although China has continued to align itself with Pakistan since 2000, it has also sought to stabilise relations with India and adopted a more middle approach on Indo-Pakistan issues, despite this, China continues to maintain its very close ties with Pakistan.

China's vision is to link the port of Gwadar in Pakistan to Xinjiang with roads, railways and an oil pipeline. Pakistan has drawn up plans to build a railway between Havelian, a Pakistani city close to Islamabad, and Kashgar in Xinjiang. This railway would roughly parallel the Karakoram highway. In 2006, Pakistan awarded a \$1.2 billion contract to an international consortium to carry out a feasibility study for establishing this rail link, but so far, no plans have been finalised to begin construction. In 2006, the

Pakistani government presented plans for a 3,300 km oil pipeline between Gwadar and Kashgar costing an estimated at \$4.5 billion to \$5 billion. Then in April 2015, Xi Jinping announced the intention to fund \$46 billion worth of China Pakistan Economic Corridor (CPEC) projects.

China's national priority is economic development in South Asia and therefore Beijing has no interest in a state of heightened tensions or conflict in South Asia. China's BRI entails multiple overland routes through South Asia, and Southeast Asia through the Indian Ocean. This vision builds on existing Chinese efforts to develop roads, railways, and pipelines across mountain ranges and through jungles and to build ports and facilities around the rim of the Indian Ocean.



# Africa

- **As China's demand for fossil resources has increased access to natural resources, particularly oil and gas is critical for China in Africa**
- **Africa is a new and emerging export market for Chinese manufactured goods**
- **China has used its economic ties with Africa for International political recognition of Beijing as the sole representative of China (the "One China" policy)**
- **China needs to maintain political stability and security in order to safeguard Chinese interests**

China has been extremely active in Africa for the past few years and this has received much negative media coverage in the West. Beijing seeks access to natural resources, particularly oil and gas. It also views Africa as a means to enhance international political legitimacy as a global power and leader of the developing world and support the principle of non-interference in sovereign countries' internal affairs. Africa is a new region for Chinese exports of manufactured items.

China as well as the US are both seeking influence in Africa, but for different goals. China has stressed political independence from outside interference while providing state-backed investment and aid focused on infrastructure and natural resource extraction. Both the US

and China seek access to natural resources and seek the creation of export markets for manufactured goods. Both need to improve African economic development through aid, investment, and trade for this to transpire, but Beijing and Washington take different approaches. Chinese and American companies generally operate in different spheres. Chinese firms tend to pursue opportunities in capital-intensive industries using low-skilled labour, such as construction, mining, and manufacturing, while US firms are involved in service industries and high-tech sectors such as banking and information technology

## Latin America and the Caribbean

Latin America and the Caribbean is the least important region of the world for China. It is geographically distant and comprises a small share of total Chinese trade. China has three overarching interests in the region. First, Beijing pursues cooperation with Latin American countries to build regional support for China's international initiatives. Second, Beijing seeks expanded trade and investment opportunities to support China's economic growth. Third, Beijing targets strengthened political legitimacy in the form of public acknowledgement in Latin America of People's Republic of China, being the sole political representative of mainland China and the weakening of Taiwan's foothold in the region.

As Beijing embarked on



economic reforms and opened up to international trade in the

late 1970s, it also shelved its attempts to foment socialist revolution in favour of developing bilateral relations and links to the developing world. By the 1990s, China switched its emphasis in Latin America from political mobilisation to economic engagement and this is its main aim in the region today.

Across the world and especially the developing world, China is neither in direct conflict and not working in close cooperation with the US, but there is significant variation by region. In Southeast Asia, Washington and Beijing are in confrontation over Chinese activities in the South China Sea. Outside of Southeast Asia, the US and China appear to be working separately with no real collaboration in pursuit of similar ends, but with no conflicts. The US market is the most important market to China as its exports more to the US than any other nation in the world. But as relations fray China is now being forced to adjust. For long the US viewed China as a cheap location for imports, on the political front it never viewed China as a major player and as such China never crossed US actions across in the world until the last decade with China's claims on the South China seas.





# CASE STUDY: China Remains a Paper Dragon in the Middle East

Chinese President Xi Jinping announced at a conference in Beijing in June 2018, attended by 22 Arab countries that China would pledge more than \$23 billion worth of loans and humanitarian aid as part of what he called an 'oil and gas plus' model. "China and Arab states must synergise our development strategies in pursuit of our respective dream of rejuvenation," Xi said. Greater interest and involvement in the Middle East by China are being seen as manifestations of the growing influence of China within the region and by some as an attempt to counter Western influence.

In the post WW2 world, it was the US that constructed the global order and the Soviet Union that competed with it for global dominance. China was disengaged from much of the world including the Middle East. It was only with the demise of the Soviet Union and with efforts to gain greater international recognition at the expense of the rival in Taiwan, that China began relations with some countries in the Middle East. In 1993 China could no longer fulfil its domestic energy needs from domestic production and it turned to the Middle East for its energy imports. By 1995 the Middle East became the number one source of oil for China. China's rapid growth and stature as well as enormous population means it needs supply lines for raw materials, commodities and more importantly oil, and this is where the Middle East comes into the picture.

China consumed 12.7 mbd of oil in 2018, which is 13% of global consumption. Only 3.8 mbd of this is from domestic sources, this is why China surpassed the US as the top global importer of oil in 2017. There are 45 nations that fulfil China's demand for oil: 55% of this oil comes from nine countries in the Middle East, with Saudi Arabia providing the lion's share. China's most important reason for being present in the Middle East is energy. The Middle East will remain China's largest source of oil imports and that is the strategic significance of the Middle East for China. China's BRI will attempt to integrate resources and markets throughout Eurasia through the establishment of a central continental land and sea

infrastructure connecting China with Europe through Central Asia and the Middle East. There has been a flurry of summits since the initiative was announced in 2013 and has led to a number of deals for the development of seaports, as the Gulf States straddle one of China's economic corridors. The Middle East's importance will only grow for China's economy due to trade routes.

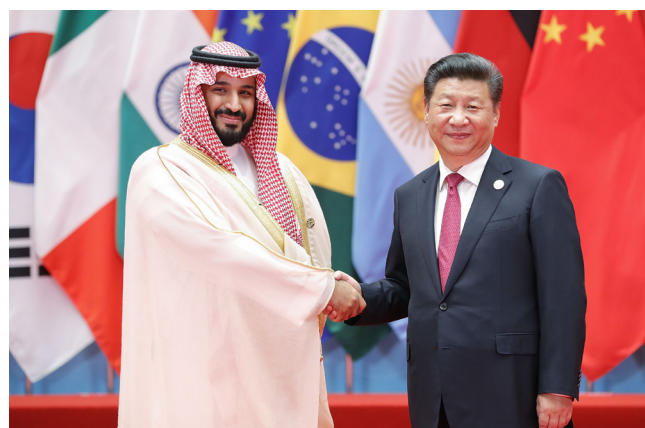
Iran and Saudi Arabia have been the two countries China has specifically focused on. Saudi Arabia is China's main oil exporter whilst Iran has enormous energy resources and China is a source of technology, investments, and possibly military hardware. But both these nations have deep relations with the US which will impede any political goals China may have. Current Iranian premier Hassan Rouhani and his regime are eager to improve Iran's ties with Europe and even seek détente with the US. Since the emergence of King Salman and Crown Prince Mohammed bin Salman in Saudi Arabia on issues of foreign policy, security and defence: Saudi is firmly in the US camp and this does not appear to be liable to change any time soon. While bilateral energy and economic ties are solid and deepening, China's diplomatic and military links with Saudi Arabia are shallow and relatively modest.

China's biggest challenge in the Middle East is the presence of the US. The US after WW2 entered into an intense struggle with Britain to remove it from the Middle East. It used military coups and the threat of the communist expansion to get a foothold in the region. It provided security assurances to Saudi Arabia and the Zionist entity to establish a military footprint in the region. In the 1970s it deepened ties with Iran and Egypt through economic aid and military sales to establish a foothold in the region. The US provides a number of nations in the region with security guarantees – in effect providing a leg-up to these autocratic regimes in return for their loyalty. The US presence includes political plans for regional issues such as the two-state solution and it is experienced at maintaining a military presence so far from the US continent and in executing

complex military operations and maintaining military bases overseas.

China is not interested in arbitrating local disputes through the use of force. Indeed, China's military involvement in the region has been modest so far. The creation of a naval base in Djibouti is the most visible sign of Beijing's regional presence. Also, China has UN peacekeepers on the ground in Lebanon and some military advisers in Syria but does not contribute to the anti-ISIS coalition. For the moment China looks happy with pursuing trade under the US regional security umbrella. Beijing has traditionally preferred the promotion of trade and investment. Accordingly, although its economic involvement in the Middle East has grown over the last decade, its military and security involvement remain marginal.

China's growing interests and increasing engagement in the Middle East highlight its achievements so far. But for the moment China lacks the capabilities to bring these to bear. This affects how much Beijing is willing to devote towards the region. China's strategy towards the Middle East is best characterised as that of a wary dragon: eager to engage commercially with the region and remain on good terms with all states in the Middle East, but most reluctant to deepen its engagement, including strengthening its diplomatic and security activities beyond the minimum required to make money and ensure energy flows. The result is China's foray into the Middle East lacks any political or military dimensions and remains limited to economic and energy considerations. Xi Jinping's investment summit in July 2018 proves China is growing in importance in the Middle East and that China has become an economic heavyweight, but it persists as a diplomatic lightweight, and is likely to remain a military featherweight in the region for the foreseeable future.



# The Great Rejuvenation

For decades, China prioritised economic development and avoided burdensome international obligations and war. To reassure countries that were nervous about China's growing power, Beijing emphasised the country's "peaceful development" for years. Reflecting the country's changing needs, however, China has increasingly discussed how the nation's revitalisation, which Xi Jinping has called the "China Dream," depends partly on the country's ability to shape a favourable international environment.

In the Maoist era, Chinese leaders cultivated relations with the developing world, and with either the Soviet Union or the US, as the situation warranted. Because of China's poverty and political isolation, Chinese leaders in the Mao era interacted little with the UN and other major institutions of the international system. However, China's political actions changed significantly following US recognition and the advent of reform and opening-up policies in the late 1970s. China entered the UN, expanded its role in international trade, and took greater interest (relatively) in international developments. Today, China's leaders appreciate the legitimacy embodied in equitable institutions and fair rules and decision-making processes, as well as the flexibility of an international order that allows Beijing to exert influence. However, Chinese leaders resent what they regard as disproportionate benefits that the US receives from existing institutions. They also resist international norms, institutions, and decisions that they regard as privileging Western countries and threatening to the importance placed on national sovereignty favoured by China.

In general, when Chinese authorities insist that the country "supports the international order," they are typically referring to China's participation in the established organisations and institutions, such as the UN and the WTO, and its support for many international laws and treaties. By contrast, Chinese leaders and thinkers criticise the liberal norms and values that buttress the international order as a

Western "political ideology." A scholar at the Ministry of State Security's Chinese Institute for Contemporary International Relations (CICIR), Niu Xinchun, explained that China had "*integrated successfully into the international economic system*" but noted "*increasing difficulties with political and ideological integration.*"<sup>17</sup>

China's leaders express support for international institutions that grant China significant influence or, at minimum, influence equal to that of other countries. In the UN, for example, China is granted veto power as a permanent member of the Security Council, which it has exercised occasionally. In the WTO, all members, including China, have an equal vote and ability to initiate the dispute resolution process. In institutions in which China has less influence, however, China's leaders want the allocation of decision-making power to be redistributed so that China has a greater voice in determining outcomes. For many years, China petitioned for the Chinese currency, the renminbi, to be included as one of the international reserve currencies included in the IMF's Special Drawing Right (SDR). In 2016, after meeting the IMF's standards, the renminbi became the first currency added to the SDR list in 15 years.

Where institutional reform is in line with China's interests it has not been forthcoming or has seemed unlikely, China began building international or regional institutions in which it has a leading role. This is particularly true within its immediate geographic region, where China has created institutions such as the Shanghai Cooperation Organization (SCO), the Asian Infrastructure Investment Bank (AIIB), the China ASEAN Free Trade Area (CAFTA) and others. In these institutions, China's leaders have greater influence over setting the agenda, which could better enable them to use these institutions to achieve national goals.

China draws a distinction between a "multipolar" order—i.e., one in which non-Western countries have a more equally weighted say in setting norms and making decisions within international institutions and the current order, which China regards as a largely "unipolar" one that privileges the US and its allies. One of the reasons China's leaders' offer for reforming representation within existing international institutions is their belief that the distribution of global power is shifting as emerging markets and developing countries rise.





China contests the aspects of the order that reflect Western values emphasising human rights and democracy or enhancing US military power. China's leaders argue that US military alliances are not part of the international order. Instead, they view these alliances as part of a plan to "contain" China. Similarly, China's leaders criticise some of the liberal democratic norms embedded in the order, especially when they perceive those norms as in tension with the Westphalian sovereignty norms that they believe form the foundation of the order.

After a couple of bad centuries, China is back. It believes, with some justification, that for most of its history it was the largest, wealthiest, best governed, and technologically most advanced society on the planet. China brims with confidence that it can regain this status, which it considers the natural order of affairs, and that it will do so in this century. If we look at China's imperatives, they are all more or less secure:

- **Maintain internal unity in the Han Chinese regions** – There is no threat to this region from abroad. It is today as secure as it's ever been.

- **Maintain control of the buffer regions** – Modern China has integrated all the areas around its buffer regions, stretching from Manchuria in the northeast through Inner Mongolia, Xinjiang and Tibet. These territories provide strategic depth to China.

- **Protect the coast from foreign encroachment** – A foreign invasion from the coast would be at the invaders own peril, but with China's naval development, its coastal areas are secure.

- **Protect China's strategic trade routes, resources and markets from foreign interference** - This has become an imperative due to China's development and this is what is causing friction with the US.

China has firmly placed its Century of Humiliation behind it, by rapidly developing in world record time. Where economic development could take multiple decades, China has achieved this in a few decades. China's interaction with the world has been economic led, its foreign policy is fundamentally determined by its economic needs.

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*“By contrast, Chinese leaders and thinkers criticise the liberal norms and values that buttress the international order as a Western “political ideology...” China contests the aspects of the order that reflect Western values emphasising human rights and democracy or enhancing US military power..... China’s leaders argue that US military alliances are not part of the international order. Instead, they view these alliances as part of a plan to “contain” China.”*

# CASE STUDY: A History of Sino-US Relations

For decades, the US viewed China as a paper tiger, a nation with plenty of potential but steeped in backwardness, poverty and communism. The US with political skill was able to lure China from the Soviet Union in the early 1970s (who China always had difficult relations with) and divide the Eastern camp. China's leadership realised by the 1970s that communism had failed to develop China and had, in fact, caused the nation colossal economic problems. Turning to the US during the Cold War Chinese leaders hoped they would get access to modern technology, skills and expertise.

During the 1990s and after the collapse of the USSR the US did not consider China a threat and considered its prospects rather bleak. The Clinton administration (1991-2001) viewed China as a partner in the post-Soviet world, especially its cheap labour, which US corporations were looking to exploit.

But this all changed when George W. Bush came to power in 2001 surrounded by the neocons who were looking to make the 21st century the American century. Condoleezza Rice wrote in an article for the Foreign Affairs Magazine in 2000: *"China resents the role of the US in the Asia-Pacific region. This means that China is not a "status quo" power but one that would like to alter Asia's balance of power in its own favour. That alone makes it a strategic competitor, not the "strategic partner" the Clinton administration once called it."*<sup>18</sup> US policy makers during the Clinton era viewed the best way to control China was through engaging her and giving her access to some US technology. The Neocon administration faced a China whose economy had passed the \$2 trillion mark and who was scouring the world for energy and resources. This new-found wealth caused great concern in the East Asia region, especially when China began to lay claim to the region's waters, artificial islands and reefs.

US policy makers viewed containment as the best way to curtail any ambitions China might have, it used the surrounding nations of South Korea, Vietnam, Japan, Taiwan and India with arms deals to contain any break out by China.

Today, containment has clearly failed. China's economy has grown 12-fold and in 2016 surpassing America's GDP in purchasing power terms. The US has been the world's largest economy every year since the 1880s. China is today the number one trade partner for 138 of the world's 200 nations, making it the world's largest trader. This wealth and the numerous projects China has announced means China and the US are on a collision course.







## **Global Power with Chinese Characteristics**

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**After 40 years of economic development China has succeeded in securing its imperatives. But in securing them via economic development it has become reliant upon resources, trade routes and supply lines that traverse around the world. This has given rise to a new imperative, which in China's four millennia history was never a concern. China today has interests which are not directly linked to mainland China but are essential for China; that is securing global trade, energy and communication lines. China's economic development on its own is not enough to protect this imperative and as a result Beijing was forced to develop new political strategies and in the last few years, a handful of strategies can be identified.**

## 1. Establishing a Eurasian Trade Bloc

For over a thousand years, the ancient Silk Road was the world's most important land route. It was the main trade route for lucrative Chinese silk. At 4,000 miles long, it passed through a chain of empires and civilisations and connected China to Europe. China envisions a New Silk Road that will include high-speed rail lines, modern highways, fibre optic cables, energy pipelines, seaports, and airports. It will link the Atlantic shores of Europe with the Pacific shores of Asia. It's history's biggest infrastructure project. Chinese President Xi Jinping announced the gigantic plan in 2013 and the Belt and Road Initiative (BRI) is now five years old.

The bloc aims to jump-start diplomatic, financial and commercial cooperation between China and more than 70 neighbouring countries across the Eurasian landmass. When complete, the huge infrastructure project will increase China's overland and maritime connectivity to other regions, extending its trade and technology to new markets. The initiative also gives Beijing the opportunity to offload its excessive industrial capability, facilitating the necessary domestic industrial reforms it needs to establish a more stable economy.

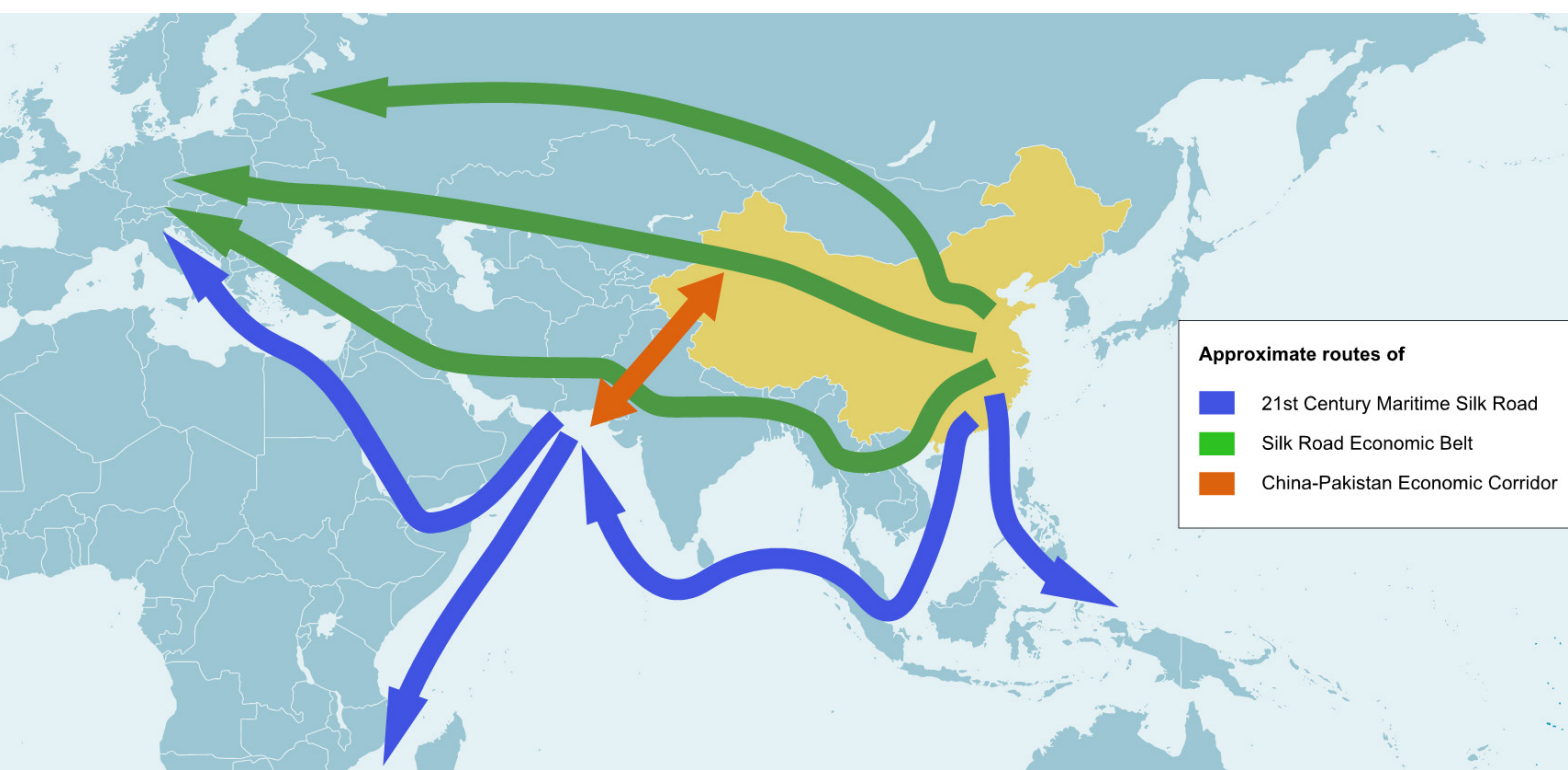
Since 2013, China has spent at least \$34 billion on the Belt and Road Initiative, focusing primarily on connectivity projects such as railways, ports, energy pipelines and grids. There is a long way to still go to achieve the goals of the initiative, but if China can pull it off, it will have created a trade bloc via both land and maritime lines, much like how Germany has created a trade bloc in the EU with itself at the centre.

## 2. Infrastructure for the Developing world

The developing world has never been more important to China than it is today. China views its ties to developing countries as critical for securing natural resources, developing export markets, expanding its geostrategic influence and gaining advantages in its global competition with the US. During the Cold War, the developing world was a symbolic cause that China used to differentiate itself from the two superpowers, the US and the Soviet Union, and trumpet mainly rhetorical support for the poorer countries of the world. In the post-Cold War era, the developing world has become a real arena for competition with the US and the site of significant Chinese political, economic and military interests.

China has been more active economically, diplomatically, and militarily in all across the developing world. Beijing's activism has only increased in subsequent decades. Chinese leaders perceive certain regions to be more important than others. Regions along its borders—Southeast Asia, Central Asia, and South Asia—China's second ring of security, are of greatest concern because instability there poses a direct and proximate threat to internal security, to China's first ring.

Since 2013, under President Xi Jinping, China has embarked upon an ambitious initiative to advance China's engagement with the Developing World. Xi has promoted an extremely ambitious effort to build a vast web of infrastructure—roads, railways, ports, canals, and pipelines—intended to link China to its neighbourhood and the wider world.





# CASE STUDY: China's BRI in Perspective

China's Belt and Road Initiative (BRI) has gained much media attention and has seen terms such as the '21st century Silk Road' and 'Eurasian Trade Bloc' thrown around as descriptions of the project. It has now been over five years since Xi Jinping announced the project, which now allows its true reality and impact to be assessed.

China grew rapidly from 1979 to well into the 2000s. This was achieved with production and investment powered by the country's integration into regional cross-border production networks. In 2002 China became the world's biggest recipient of foreign direct investment (FDI) and by 2009 it had overtaken Germany to become the world's biggest exporter. But the Great Recession from 2008 led to a decline in world trade, creating a major problem to the country's export-oriented growth strategy.

The government attempted to counter the effects of declining external demand with a major investment programme financed by massive money creation and low interest rates. Investment as a share of GDP rose to an all-time high of 48% by 2012 and it remains at over 44% of GDP today.

But, despite the government's efforts, growth steadily declined, from 10.6% in 2010 to 6.7% in 2016, before registering an increase of 6.9% in 2017. In 2018 economic growth has further declined to 6.5%. The Chinese government continued to pursue a high growth strategy by promoting a massive state-supported construction boom. New roads, railways, airports, shopping centres and apartment complexes were built.

Such a big construction push has left the country with excess facilities and infrastructure, highlighted by a

growing number of ghost towns. This building boom was financed by a rapid increase in debt, creating repayment concerns. Corporate debt in particular soared, local government and household debt also grew substantially. The boom also caused several industries to dramatically increase their scale of production, creating serious overcapacity problems. Nine traditional industries in China were the most severely exposed to the excess capacity problem: steel, cement, plate glass, electrolytic aluminium, coal, ship-building, solar energy, wind energy and petrochemical. All of these nine sectors are related to energy, infrastructure construction and real estate development. These problems led to huge capital flight forcing the central bank to spend \$1 trillion of its foreign exchange reserves to defend the exchange rate.

China's leaders were not blind to the mounting economic difficulties. Limits to domestic construction were apparent, as was the danger that unused buildings and factories coupled with excess capacity in key industries could easily trigger widespread defaults. The party leadership chose a new strategy, one that seeks to maintain the existing growth process by expanding it beyond China's national borders: it's One Belt and One Road Initiative.

One Belt One Road (OBOR), as it was known at the time, was conceived before Xi Jinping was elected President by the National People's Congress in 2013. Soon after his election, he announced his support for OBOR. But it was not until 2015, after consultations between various commissions and ministries, that an action plan was published and China aggressively moved forward with the initiative. This initiative did not come out of the blue but is a direct result of challenges stemming from China's growth model.

The initial aim of the BRI was to link China with 70 other countries across Asia, Africa, Europe, and Oceania. The two parts to the initial BRI vision: The "Belt", which seeks to recreate the old Silk Road land trade route, and the "Road," which is not actually a road, but a series of ports creating a sea-based trade route spanning several oceans. The initiative was to be given form through a number of separate but linked investments in large-scale gas



and oil pipelines, roads, railroads and ports as well as connecting “economic corridors.” There is no official BRI map, what we have are illustrations by everyone, apart from Chinese officials.

The reason for no official BRI map is that the initiative has continued to evolve. In addition to infrastructure it now includes efforts at “financial integration,” “cooperation in science and technology,” “cultural and academic exchanges,” and the establishment of trade “cooperation mechanisms.” The geographic focus has also expanded. In September 2018, Venezuela announced that the country *“will now join China’s ambitious New Silk Road commercial plan which is allegedly worth \$900 billion.”*

BRI in reality represents an attempt to solve China’s problems of overcapacity and surplus capital, declining trade opportunities, growing debt and falling rates of profit through a geographic expansion of China’s economic activity and processes.

China has rushed to generate projects, many of which are not financially viable. The European railway projects are illustrative of this. Chongqing-Duisburg, Yiwu-London, Yiwu-Madrid, Zhengzhou-Hamburg, Suzhou-Warsaw and Xi’an-Budapest are among the more than 40 routes that now connect China with Europe. Yet out of all these, only Chongqing-Duisburg, connecting China with Germany, was created out of a genuine commercial need. The other routes are political creations by Beijing. The Euro-China railways arrive in Europe full of laptops and other gadgets, the containers on the new routes come to Europe full of low-tech Chinese products—but they leave empty, as there’s little worth transporting by rail that Chinese consumers want. With only half the route effectively being used, the whole trip often loses money. Today, most of the BRI’s rail routes function only thanks to Chinese government subsidies.

A growing number of countries are becoming reluctant to participate because it means they will have to borrow funds for projects that may or may not benefit the country or generate the foreign exchange necessary to repay the loans.





### 3. Establishing Alternatives to Bretton Woods

China has attempted to build alternatives to the US dominated Bretton Wood institutes.

**BRICS** - The BRICS (Brazil, Russia, India, China and South Africa) is a group of countries with emerging economies and nationalistic governments, which consider existing management of the global order as unfair to them and in different degrees have opposed to the rules dictated by Western powers. Although most of BRICS dynamic has been rhetorical, their joint statements have had a meaningful impact on the international public opinion. That is why, since the formation of the group, the question of what position would the BRICS take towards existing international institutions and norms has been raised. These countries are perfectly integrated into the global markets. However, the unwillingness of Western nations to accommodate BRICS' demands of reform pushed the group towards more revisionist and balancing positions.

**New Development Bank (NDB)** - In July 2015 the New Development Bank (NDB), formerly the BRICS Development Bank, a multilateral development bank established by the BRICS states came into existence. According to the Agreement on the NDB, *"the Bank shall support public or private projects through loans, guarantees, equity participation and other financial instruments."* Moreover, the NDB *"shall cooperate with international organisations and other financial entities and provide technical assistance for projects to be supported by the Bank."* The initial authorised capital of the bank was \$100 billion, divided into 1 million shares. The BRICS and the development bank it established are attempts to create alternatives to the World Bank and IMF. The NDB's main purpose is to mobilise resources for infrastructure and sustainable development projects in the member countries and other developing economies, it's also based upon the

principle of non-interference in the internal affairs of countries and is also one of the leading features of the bank. The NDB aims to work within the margins of state law without imposing any political condition on the loan beneficiaries.

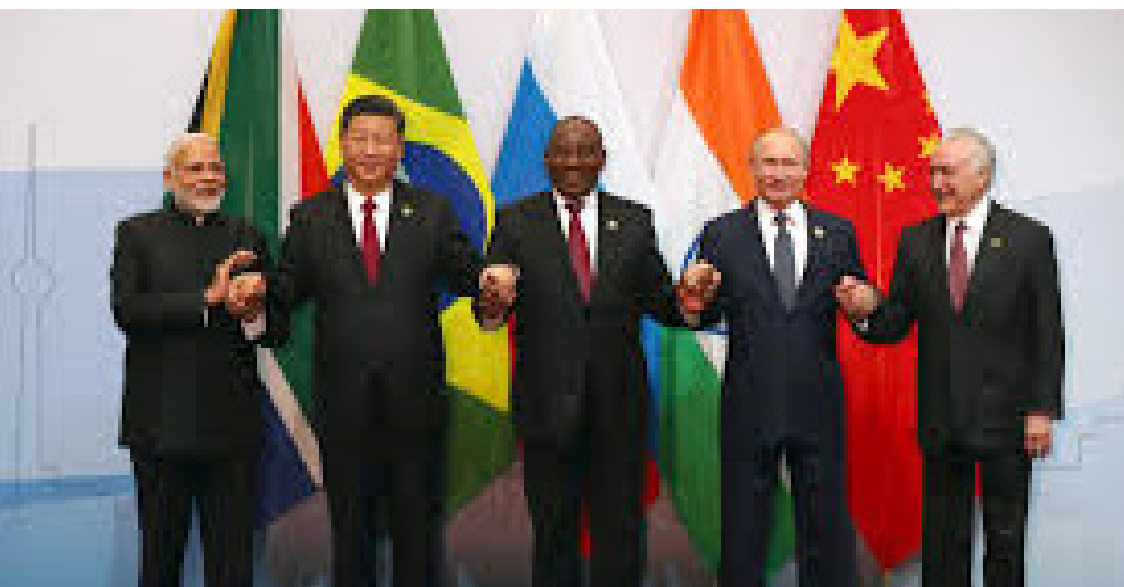
**Asian Infrastructure Investment Bank (AIIB)** - On 25th December 2015, the Asian Infrastructure Investment Bank (AIIB) began operations. The multilateral development bank aims to support the building of infrastructure in the Asia-Pacific region. The bank currently has 70 members as well as 23 prospective members from around the world. As matters stand, the bank has invested in just 25 projects worth \$7.5 billion. This is relatively small and not sufficient to dislodge the Bretton Woods institutions, but the seeds have been planted for this institute to play a major role in global development in the future.

**Replacing the Dollar** - China has been talking about replacing the dollar for some time. This is despite the fact China's rise has been dependent upon its huge exports to the US, this has resulted in China accumulating dollar reserves in excess of \$3 trillion. On top of this China has invested over a trillion dollars in US treasury bonds.

With sanctions on Iranian oil – a key supplier of Chinese energy and China's trade war with the US, China has actively attempted to move away from the dollar as the global reserve currency. In March 2018, the Shanghai Futures Exchange launched its first futures contract that is open to foreign investors. This contract, a yuan-denominated oil future, has the potential to become a rival to the dollar-denominated Brent and WTI contracts that serve as the current benchmarks.

China in a number of big-ticket trade deals has agreed them in currencies other than the dollar.

Replacing the dollar is an immense challenge as the US dollar is used in 40% of all global transactions. The Chinese yuan accounts for only 1.7% of international payments. Over 60% of global reserves are held in dollars. Despite all the noise about China's



yuan, currently the yuan is not utilised much in international transactions. But it has undertaken many actions to internationalise its currency. It has introduced Currency swap lines and entered into the International Monetary Fund's Special Drawing Right (SDR). But for the moment, few investors or traders have embraced it. In the foreign exchange market, the yuan accounts for only 1.7% of international payments. China currently has many restrictions on converting its currency, it has capital controls and its currency is not freely available around the world. When China did make the yuan fully convertible in 2010, the capital flight was so large, full convertibility was shut down. As a result, until these restrictions are not removed the yuan cannot become the world's reserve currency and replace the dollar.

Both China and Russia are making attempts to move away from the dollar, by using their own currencies. But they will need more nations to join them to impact the dollar. China is well placed to challenge the dollar, but it cannot achieve this before it untangles itself from the US. For the moment there is little alternative to the dollar, but China is making moves to internationalise its currency and in time it will likely challenge the dollar as its economy grows.

**Alternative Global Payment System** - The US dollar has dominated the global payment system; the Society for Worldwide Interbank Financial Telecommunication (SWIFT), system is currently the largest economic settlement system in the world. Almost all financial transfers are made possible through this system. As such, those who control SWIFT have the power to threaten financial institutions and sovereign nations that, if they don't do as they're told, they can be denied access to the system. The SWIFT system, that enables financial

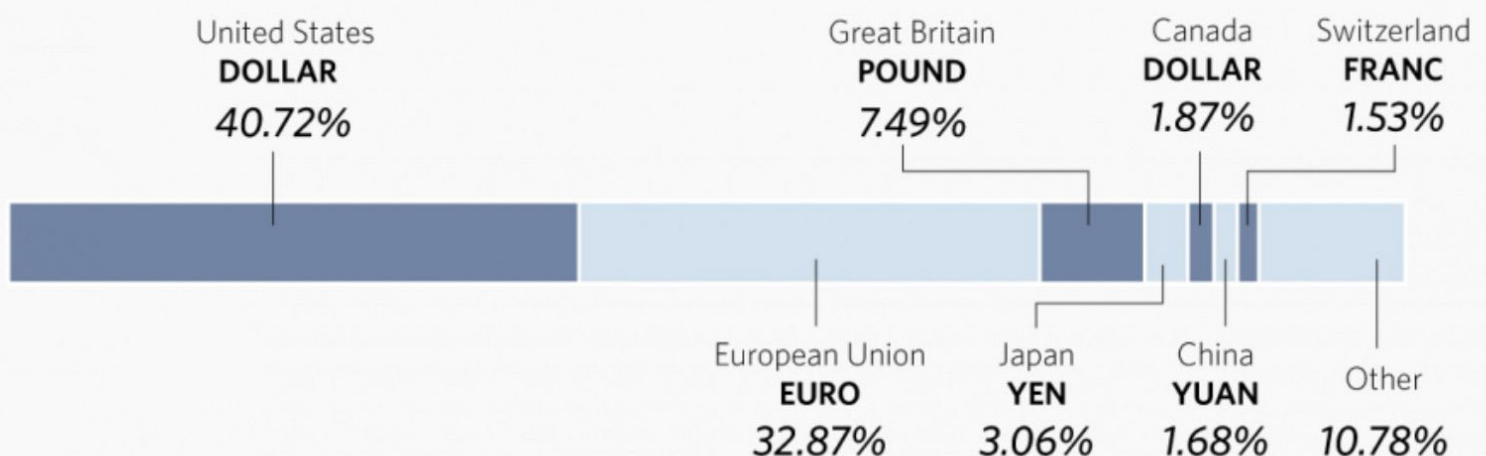
institutions to make payments on behalf of companies, governments and institutions is dominated by the US dollar. Almost all nations globally have little choice but to take dollars. The US can sanction or exclude any country from the US dollar-based financial system at the flip of a switch. By extension, it can also cut off any country from the vast majority of international trade. This is how the US dealt with nations during the Cold War that attempted to join the Eastern Bloc, such as Cuba. After the fall of the Soviet Union both Iran and North Korea have faced sanctions and have been excluded from global commerce due to the US dominated global financial, monetary and economic system.

China has introduced the Cross-border Interbank Payment System (CIPS), which is its own independent settlement system. CIPS began in 2015 as a means by which to settle oil and gas accounts in keeping with agreements that already existed between China and other nations. China hopes CIPS will gain strength and its use will spread outward. As China is now the world's largest importer of oil, and the number one trading nation for 138 nations, it is well placed to challenge the dominance of the SWIFT global payment system.

***“Despite all the noise about China’s yuan, currently the yuan is not utilised much in international transactions.”***

## Currencies Used in Global Payments

Percentages of global payments conducted in the leading currencies





# 4. Sino-Russian Partnership

The year before he died in 2017, one of America's leading 20th century strategic thinkers, Zbigniew Brzezinski, sounded an alarm. In his analysis of threats to American security, he said *"the most dangerous scenario," he warned, would be "a grand coalition of China and Russia...united not by ideology but by complementary grievances." This coalition "would be reminiscent in scale and scope of the challenge once posed by the Sino-Soviet bloc, though this time China would likely be the leader and Russia the follower."*<sup>19</sup>

With the collapse of the Soviet Union in 1991, the de facto US-China alliance ended and a China-Russia rapprochement began. In 1992, the two countries declared that they were pursuing a "constructive partnership". In 1996, they progressed towards a "strategic partnership" and in 2001, they signed a treaty of "friendship and cooperation". America's predicaments in both Iraq and Afghanistan has seen both China and Russia attempt to introduce an alternative order to the US constructed and dominated world order.

Energy has been one of the key strategic issues the marriage between the two nations has been built upon. The two nations have signed several major energy deals. Russian oil has made up a steadily growing share of China's energy portfolio for years and in 2016 Russia became the country's biggest oil supplier. China, for its part, has begun to substantially invest in Russia's upstream industry while its state-run banks have heavily bankrolled pipelines connecting the two countries. Beijing acquired a large stake in Russian oil giant Rosneft. Russian exports of natural gas, including liquefied natural gas, to China are also increasing. These moves are rooted in grand strategy: Russia and China are privileging each other in energy trade and investment to reduce their dependence on locations where the US is dominant.

At the same time, Beijing and Moscow have symbolically demonstrated their ever closer relationship in the realm of defence. They have conducted joint military exercises in unprecedented regions, including the Mediterranean Ocean and the Baltic Sea, as well as in disputed territories, such as the Sea of Japan and the South China Sea. Vostok-2018 was Russia's largest ever military drills, with hundreds of thousands of troops joining Chinese soldiers. The drills consisted of 300,000 Russian soldiers, 36,000 military vehicles, 80 ships, 1,000 aircraft, helicopters and drones, as well as 3,500 Chinese troops. Weapons deals between them are likewise on the rise. Russian arms sales to China skyrocketed in 2002. After

temporarily dropping off between 2006 and 2013 amid suspicion that China was reverse-engineering Russian platforms, Russia's sales to China resumed. Moscow agreed to sell its most sophisticated systems, the Su-35 aircraft and the S-400 surface-to-air missile systems, to its Asian neighbour.

Over the years, the two countries have taken on distinct roles in Central Asia. Russia has become the leading security guarantor in the region by founding the Collective Security Treaty Organisation (CSTO), a formal alliance with a mutual self-defence clause and by building military bases in Kyrgyzstan and Tajikistan. Russia has also integrated Kazakhstan into its air defence system. By comparison, China is rapidly emerging as the leading energy and infrastructure partner in the region. The country's Belt and Road Initiative is well underway, and several oil and natural gas pipelines connecting China to its Central Asian neighbours are already functional. Both countries have a stake in the region's security and economic integration, as evidenced by the presence of the Russia-led Eurasian Economic Union and the China-led Shanghai Cooperation Organisation there.

Along with pushing for greater financial and monetary autonomy by distancing themselves from the dollar-dominated order of international trade and finance, the projection of power to every corner of the world is not the immediate goal. But rather, the two powers seem to be aiming for maximum autonomy and a proximate sphere of influence that encompasses Eastern Europe and parts of Asia. They also seek to overhaul international rule-making with the intention of gaining greater influence in multilateral institutions, securing vetoes over military interventions, increasing global governance of the internet, ending US pressure regarding democracy and human rights, dethroning and reigning the dollar and accounting for their interests in the design of the global security order.

The Sino-Russian partnership can grow into a strategic rivalry for the US. Both countries take issue at the extent and application of US power. Russia and China agree that the US should not be the global superpower. But they have a vastly different views of what the alternative reality should be. Russia sees the alternative as a rebirth of Russian power on the order of the Soviet Union. China sees the alternative as reclaiming the mandate of heaven, a position that was usurped by Western imperialist powers in the 19th century when China was vulnerable.

## 5. Leading the Development of Future Technology

The state-driven “Made in China 2025” (MIC2025) plan unveiled in 2015 aims to lift the country’s industries up the value chain, replacing imports with local products and building global champions able to take on the Western technology giants in cutting-edge technologies. The strategic plan of China issued by Chinese Premier Li Keqiang and his cabinet in May 2015 aims to moving China away from being the world’s factory floor for cheap goods and low quality and to move to higher value products and services. In essence “Made in China 2025” is a blueprint to upgrade the manufacturing capabilities of Chinese industries.

The goals include increasing the Chinese-domestic content of core materials to 40% by 2020 and 70% by 2025. The plan focuses on high-tech fields including the pharmaceutical industry, automotive industry, aerospace industry and semiconductors, IT and robotics etc, which are presently the purview of foreign companies. It is an initiative to comprehensively upgrade Chinese industry. It is an attempt to move the country’s manufacturing up the value chain and become a major manufacturing power in direct

competition with the US.

The Chinese government is committed to investing \$300 billion to achieve this plan.

The plan was drawn up by more than 150 scientists and scholars in 2014 under the supervision of the Ministry of Industry and Information Technology, along with 20 other cabinet-level entities that included the National Development and Reform Commission, the Chinese Engineering Academy, and the ministries that oversee science, technology and finance. A leading group for Building National Manufacturing Power was also established in 2015 under the leadership of vice-premier Ma Kai to coordinate the planning and implementation of MIC2025 policies nationwide. This was followed by a technology “road map” published a few months later that gave more specific targets for the industries singled out in the plan.

The world powers have for long led in advanced and new technology and MIC2015 is China’s attempt to be a global leader in this area.



**MADE IN CHINA 中国制造**  
**2025**



# CASE STUDY – Assessing China’s Modernisation Plan

In 2015, China released a series of ambitious industrial plans, the most prominent of which was called “Made in China 2025”. The blueprint laid out lofty goals that aim to refocus China’s economy away from labor-intensive manufacturing and toward high-tech and service industries.

“Made in China 2025” is the first of three 10-year plans aimed at guiding China’s transition to a high-value manufacturing economy by 2049, the all-important 100th anniversary of the founding of the People’s Republic of China. By 2025, according to Chinese Minister of Industry and Information Technology Miao Wei, “China will basically realise industrialisation nearly equal to the manufacturing abilities of Germany and Japan at their early stages of industrialisation.”

China has long struggled with the problems that fully modernised economies like the US, Japan and Germany have mastered, particularly development of core technologies and native innovation. The MIC2025 plan admits this and describes the task at hand: “China’s manufacturing sector is large but not strong, with obvious gaps in innovation capacity, efficiency of resource utilisation, quality of industrial infrastructure and degree of digitisation. The task of upgrading and accelerating technological development is urgent.” The plan divides China’s shortcomings into four categories: 1) innovation, 2) quality and efficiency, 3) smart manufacturing and 4) green development. Its overriding vision can be boiled down to a three-step process: indigenise R&D into core technologies and intellectual property; substitute Chinese tech for foreign technology at home and make Chinese technology dominant overseas.

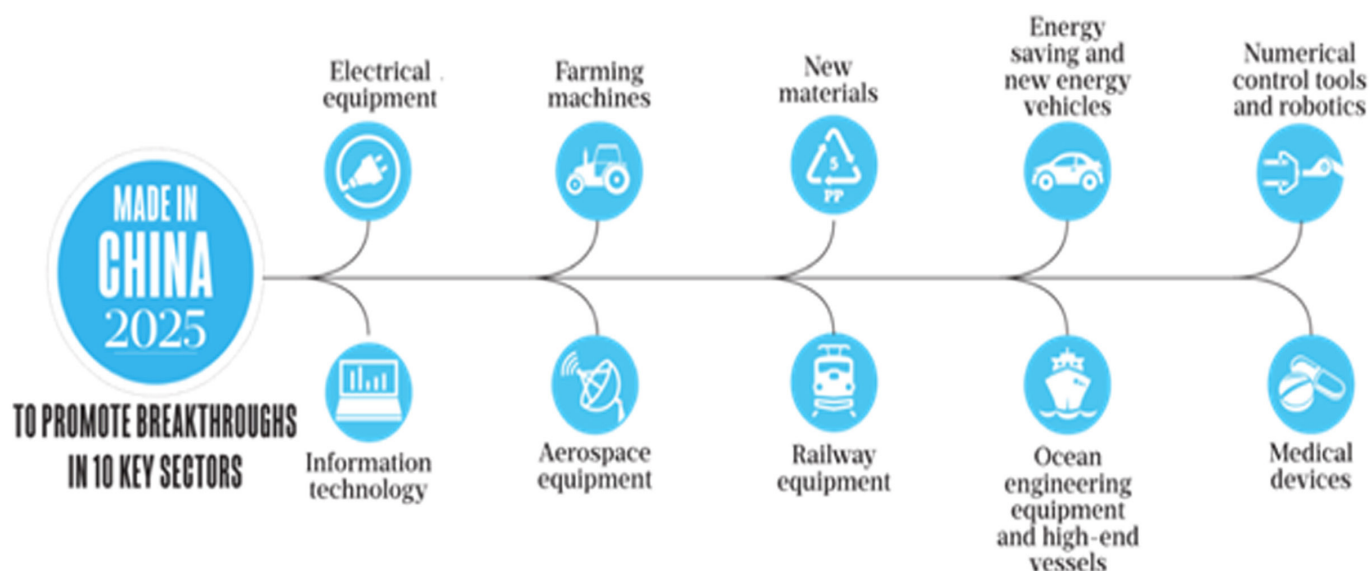
The MIC2025 plan identifies ten sectors where the bulk of this effort will take place. China wants 70% of basic core components in these sectors to be sourced from domestic suppliers by 2025.

The challenge China faces is immense. The Atlantic monthly writer James Fallows spent a year in China, watching the nation’s industrial machine up close. He compared China’s manufacturing capability to the U shaped smile on a happy face emoji (i.e. the bathtub curve). Fallows illustrated the development of a product, from its initial conception to its eventual sale. At the top left of the curve there is the initial idea

and industrial design, the products details and how it will eventually look and work. Lower down the on the curve is the detailed plan by an engineer. At the bottom of the curve is the manufacturing, assembly and shipping. Then rising up on the right of the curve is the distribution, marketing, retail, sale, service contracts, parts and accessories. Fallows observed that in almost all the manufacturing industry in China, China takes care of the bottom of the curve i.e. the assembly of a product and the US the top. The ends of the U is where the money is and the US dominates this area globally.

In practice, with US tariffs targeting high-tech areas, China doesn’t really have many options on moving up the tech-ladder. This is why the Chinese strategy is to pour money into state-owned enterprises and state-controlled universities and research centres in service of research and development priorities laid out by the State Council. China is using commercial espionage and cyber-theft to help firms make up ground. China is in a high-stakes race to avoid an approaching crisis. But, increasingly, it’s fuelling a backlash from foreign nations that would prefer to see China remain where it is.





### Robotics

**2025 goals:** To supply 70 per cent of domestic robotics market.

Own intellectual property rights of key parts

Develop next-generation robots

One or two companies to rank in the top five in the world



### Maritime equipment and hi-tech ships

**2025 goals:** At least five Chinese manufacturing companies to be globally recognised

To supply 40 per cent of international maritime equipment

High-tech ship design and manufacturing equipment to supply 50 per cent of international markets



### Railway Transport

**2025 goals:** Overseas business to account for 40 per cent of total.

Have a presence in high-end segment of global railway transport value chain.



### New energy and energy-saving vehicles

**2025 goals:** Domestic products with intellectual property rights to supply half of domestic market

Self-sufficiency rate for key parts to exceed 60 per cent

Export 20 per cent of commercial vehicles

Three companies to rank in top five by international sales



### Biopharma and hi-tech medical devices

**2025 goals:** Innovative development and production to reach international standards

Industrial output of medical devices to reach 1.2 trillion yuan

Domestically-made core components to reach 85 per cent

Commercialisation of innovative chemicals and Chinese medicines



### New energy and energy-saving vehicles

**2025 goals:** Domestic products with intellectual property rights to supply half of domestic market

Self-sufficiency rate for key parts to exceed 60 per cent

Export 20 per cent of commercial vehicles

Three companies to rank in top five by international sales



### New materials

**2025 goals:** Self-sufficiency to 95 per cent and quality of most products to reach international standards, with some as global leaders

Two to three globally competitive steel companies

Major advanced construction materials reach international standards, 30 per cent share of global market



### New generation information technology

**2025 goals:** Mobile communications equipment to supply most of domestic and nearly half of international markets

Handful of semiconductor companies recognised as top-tier

Enter the 14-20nm semiconductor manufacturing process phase



### Energy equipment

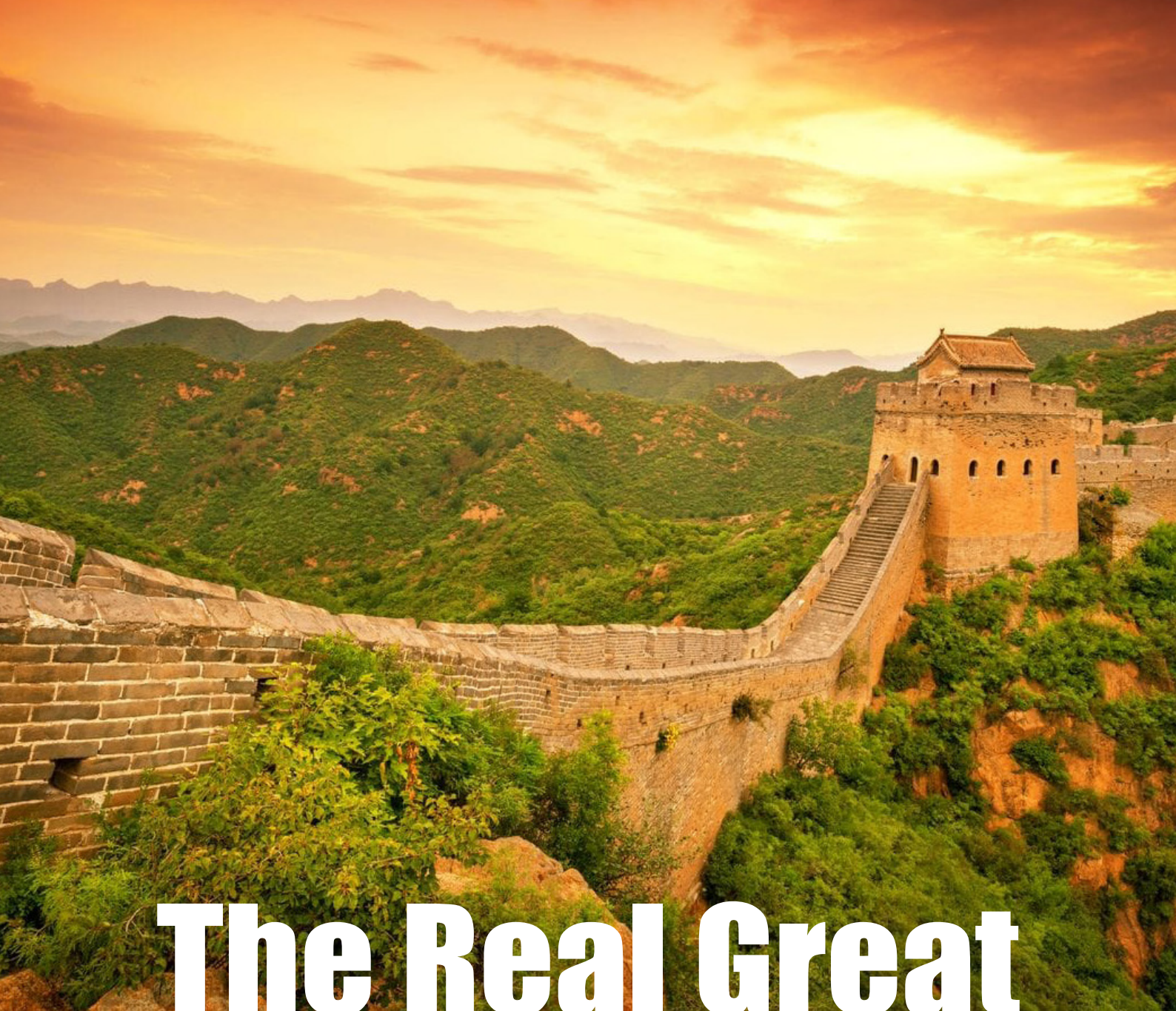
**2025 goals:** To have established globally competitive companies

To produce advanced large-scale thermal, hydro and nuclear power equipment

Renewable energy equipment to account for 80 per cent of market

Dominate the formation of global standards for high-voltage transmission equipment





# The Real Great Wall of China

China's leaders have developed a number of strategies to maintaining its position and to continue its ascent, but China faces significant challenges that it will need to overcome even before it faces its external challenges. These range from social, economic, military and political and they will grow in size and scope and create further challenges unless dealt with.

# Demographics

In 2015, the Chinese Communist Party's 18th Party Congress revealed in its Fifth Plenum Communiqué that China will abandon its One Child Policy, allowing all couples to have two children. The One Child Policy, adopted in 1979 was in order to avoid massive overpopulation. Three decades on, the policy led to a huge gender imbalance and an inverted population pyramid where a diminishing pool of young workers now supports an ever-increasing number of pensioners. This raises the spectre that China will grow old before it becomes rich.

One of the reasons for abandoning the policy was the question of whether it any longer had any impact on China. China's low fertility rate of 1.4 children per mother, compared with an average of 1.7 in developed countries and 2.0 in the US, is at least as much a reflection of urban couples struggling to cope with the rapidly rising cost of living and education in many Chinese cities as it is of draconian enforcement of the policy.

There has, for long, been two Chinas: a wealthy coastal region home to 400 million, including much of China's middle class and a largely rural interior home to 900 million people, many of whom have seen only minimal benefits of economic growth since 1978. High costs of living — and thus of raising a second child — in coastal cities imply that the inland population is likely to grow more quickly than the coastal population. This will widen the chasm between the two Chinas.

The effects of the One Child Policy can be felt elsewhere too.

A Ministry of Education report in August 2018 confirmed more than 13,600 primary schools closed nationwide in 2012. The ministry looked to China's dramatically shifting demographic profile to explain the widespread closures, noting that between 2011 and 2012 the number of students in primary and secondary schools fell from nearly 150 million to 145 million. It also confirmed that between 2002 and 2012, the number of students enrolled in primary schools dropped by nearly 20%. The ministry's report came one day after an article in People's Daily, the government newspaper, warned of China's impending social security crisis as the number of elderly is expected to rise from 194 million in 2012 to 300 million by 2025.

China will need to urbanise much more of its population if it is to increase domestic consumption. It will need to house, employ, care for and educate most of its population if it hopes to create more consumers by 2030. Within the next decade however, over 25% of China's population will be over the age of 60, compared with under 15% today. In that time, the portion of China's population too young or too old to work will rise from around 38% to 46%, with the balance of China's dependent population shifting substantially from young to old.

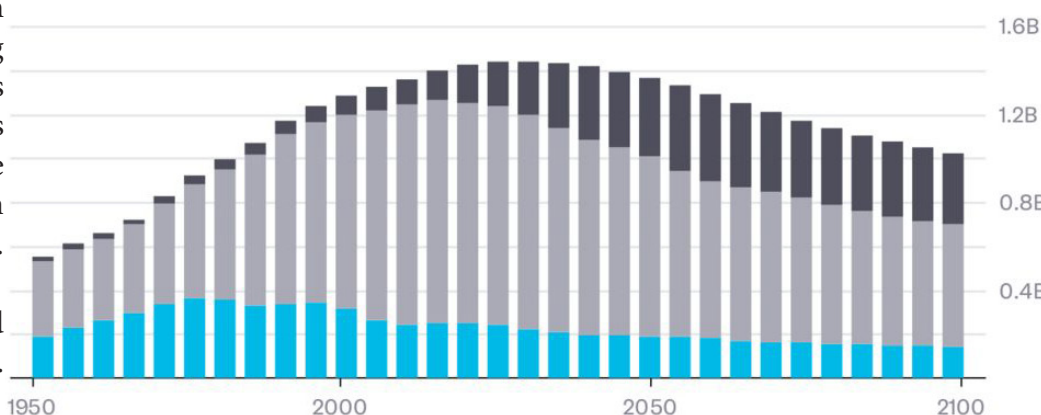
At the same time, China's working-age population (20-59) is set to decline by as much as 80 million people. The shift to internal consumption will require a drastic increase in worker productivity just to sustain growth rates even remotely close to present levels.

The one child policy needed to be abandoned as it has created an imbalance in the age structure of the country. This will impact Chinese attempts to spread its economic ascent to the rest of the country as the populations average age moves from young to old.

China's demographic challenge lies in the fact that, unlike Japan, South Korea, the US and Western Europe, China's population will grow old before the majority of it is anywhere near middle-income status, let alone rich. This is historically unprecedented and its implications are made all the more unpredictable by its coinciding with the Chinese economy's forced shift away from an economic model grounded in the exploitation of inexhaustibly cheap labour toward one in which young Chinese will be expected to sustain the country's economic life as workers and as consumers. A temporary reprieve from the demographic crisis will be difficult but possible with reform, but a long-term solution is far out of reach.

## China's Shifting Demographics

■ Newborns to age 14 ■ 15-64 ■ 65 and older





China has throughout its history had difficult relations with its minorities and anyone who was not Han Chinese. The heartland of China consisted of Han Chinese and China is unique in that it is really a civilisation state rather than a nation state as all its Han Chinese view themselves as the same race. The Han Chinese resided historically in Eastern China but were surrounded by large territories which insulated them from foreign invasion. When China was centrally strong it controlled these buffers. When it was weak, foreigners were able to assert control on these buffers and threaten the Chinese heartland.

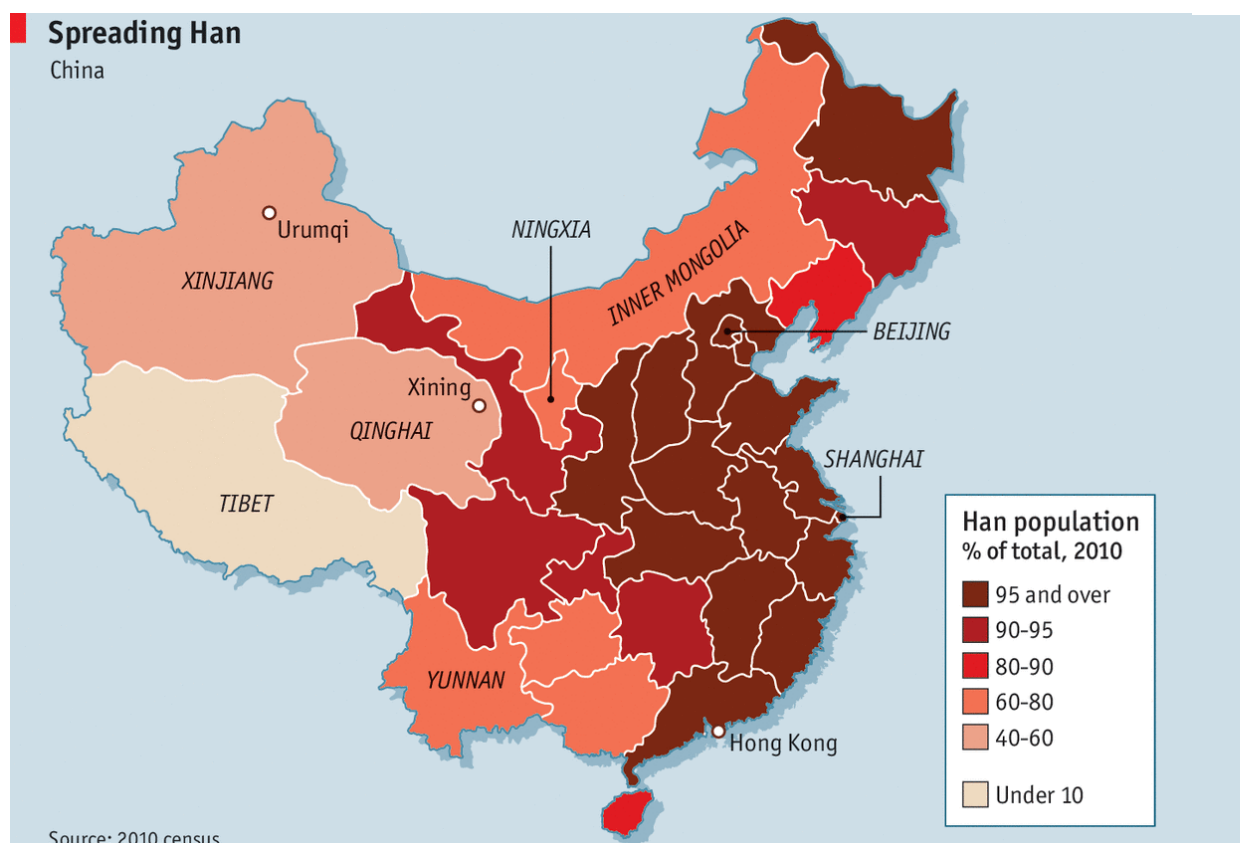
There are 115 million Chinese citizens (nearly 8.5% of the population) that belong to China's 55 state-designated ethnic minority groups. Their numbers are equal to the population of Mexico. Centuries of isolation and autonomy have made many of them linguistically and culturally distinct from the majority Han. Most of these minorities live in southern China, Tibet or the western Province of Xinjiang or near the borders of Burma, Laos, Vietnam, India, Russia, Mongolia, North Korea and the former Soviet republics of Kazakhstan, Kyrgyzstan and Tajikistan.

Whilst 115 million is a small percentage of China's 1.3 billion population it's where these

minorities are territorially based that presents problems for Chinese social cohesion. In 40% of Chinese territories (East China) the Han make up the vast majority of the people. But in 60% of China's territory (West China) minorities constitute the majority of the population. What makes this even more challenging for China is these territories are buffer regions which historically have protected the Chinese heartland from foreign invasion.

Minorities are generally very poor in China and their income levels are significantly lower than the Chinese population as a whole. By some estimates more than 70% of ethnic minorities in southern China live below the poverty line. Many live on less than \$60 a year, reside in villages without roads and electricity, lack education, don't speak Chinese and didn't know anything of the outside world until they saw a television.

As southern and coastal areas got richer, much of central, northern and north-western China has not kept up, increasing competition and contributing to age-old resentments across ethnic, linguistic and cultural lines. Uneven distribution of wealth has fuelled deep resentment in the poorer, often ethnic regions of China.



# CASE STUDY: The Geopolitics of Xinjiang

China has for long denied it was targeting ethnic Muslim Uyghurs for internment camps in its restive Xinjiang region. But the last few years has seen a flurry of reports and videos showing Uyghur Muslim being interned at camps across west China.<sup>20</sup> With international pressure mounting, the Chinese regime finally admitted to the dark reality: an island of concentration camps has been built. China's state-run Xinhua news agency on 13th October 2018 quoted an official that the "sinicisation" of religion must be upheld. Quoting You Quan, head of the ruling Communist Party's United Front Work Department, which oversees ethnic and religious affairs, he said: *"The Party's leadership over religious work must be upheld, the infiltration of religious extremism must be guarded against."*<sup>21</sup> Despite China's economic rise it has struggled with this restive region which is composed mostly of minorities.

The Xinjiang Uyghur Autonomous Region (Xinjiang) lies in China's northwest and stretches over 1.6 million square kilometers (618k sq mi). The region accounts for one sixth of the Chinese territory and borders eight countries. Today Xinjiang is home to around 21 million people coming from thirteen different ethnic groups with the largest being the Uyghur Muslims. It was historically a main conduit and hub for economic and cultural exchange between East and West, Xinjiang became an important section of the Silk Road. The rise of European imperialism in the 1800s saw the Russian and British empires expand into Central Asia. The Qing dynasty's collapse in 1911 led to Chinese control over Xinjiang to virtually diminish. It would take Mao Zedong in 1949 to abolish the independence of the territory and annex it to the Republic of China. On this occasion though Mao attempted to empty the region of its Muslim population by forcibly re-settling the region's Muslims and relocating Han Chinese to the restive region. This policy, still in force today has largely failed and is what culminated in the Ürümqi riots in 2009.<sup>22</sup>

China's economic miracle has been predicated upon access to energy and commodities. Xinjiang is a critical region that needs to fuel China's economic machine and it is also strategically located as a supply route. Xinjiang contains over 20% of China's coal, natural gas and oil resources, Xinjiang has the highest concentration of fossil fuel reserves of any region in the country.<sup>23</sup> The oil fields at Karamay is one of the largest in China and the region has extensive deposits of coal, silver, copper, lead, nitrates, gold, and zinc. Xinjiang is China's largest natural-gas producing area and serves as an important trade and pipeline route into the Central Asian region

and beyond. Xinjiang is the only region in China that neighbours the Central Asian Republics; Central Asian oil (and a large proportion of Russian oil) has to enter the Chinese pipeline network from Xinjiang. The first transnational oil pipeline built for this purpose was that of the Sino-Kazakh Oil Pipeline Co. Ltd. which began pumping oil in July 2006. Whilst Xinjiang missed out on China's miracle it has literally fuelled China and for this reason it's a strategically critical region.

Historically Xinjiang has been China's key land route to the world. Western China provides extended access to the Arabian Sea through Pakistan and to the Indian Ocean and Persian Gulf. China could access Pakistan, Central Asia, the Middle East and the whole of Eurasia and beyond via Xinjiang and transport resources overland and avoid excessive dependence on vulnerable sea routes. It is for this reason China's colossal Belt and Road Initiative (BRI) will have multiple sections run through Xinjiang to connect the entire country to Eurasia and beyond. In this way, Xinjiang has become something of a geographic lynchpin for economic connectivity across Eurasia.

For strategic, economic, commercial, demographic and political reasons Xinjiang represents an existential issue for China. But despite throwing lots of money at the region and in the past using the iron fist, it has failed to win the Muslims in the region. Whilst the Western media have only now caught onto what China is doing, Beijing's tactics follow in the footsteps of the west who have similar strategies to deal with their Muslim populations who they have long struggled to integrate. These tactics have failed in the west and will in all likelihood fail in China. The daunting issue for China's leaders is its economic and political future runs through a region populated by Muslims, who Beijing has been fighting for over a century.





# Social Cohesion

Much of the world hears little of what takes place in China due to the strict control the Communist Party places on its outreach to the world. China has for long maintained an iron grip on internal cohesion; it did this with brute force under Mao and this has continued to maintain the rule of the Communist Party. But despite such censorship and autocratic rule, on average about 500 protests, riots and mass demonstrations take place every day, a number that is only increasing.<sup>24</sup> Getting exact numbers is notoriously difficult as the Communist Party has an interest to maintain the image that it is in control, but researchers and specialists from China have conducted research into this area and regularly publish their findings.

The number of annual protests has grown steadily since the early 1990s, from approximately 8,700 'mass group incidents' in 1993 to over 87,000 in 2005.<sup>25</sup> In 2006, the Chinese Academy of Social Sciences estimated the number of annual mass incidents to have exceeded 90,000. The Chinese sociology professor, Sun Liping, estimated 180,000 incidents in 2010.

China has for centuries attempted to hold together a vast multi-cultural and multi-ethnic nation despite periods of political centralisation and fragmentation. But cultural and linguistic differences have worsened due to uneven growth and a massive maldistribution of wealth. Physical mistreatment, imprisonment, lax labour laws and pitiful pay and the fact that the Chinese government is seen not to have addressed the economic needs of the vast bulk of the population is causing internal cohesion issues. China's economy has been built upon over a billion workers serving 200 million Communist Party cadres. These workers received less pay than workers in Africa and Mexico and were the real fuel of China's economic miracle. These workers were the ones that kept China's factories running for 24 hours a day. The changes this brought to the country's landscape, such as rural dwellers shifting to urban areas and much of the decades long development remaining in the coastal areas and not the vast interior of China, lead to the 500 demonstrations a day. These protests are not linked and are based upon exploitation at a local level, but have the possibility of spiralling out of control if not contained.





# CASE STUDY:

## The Battle for Hong Kong

Hong Kong, like many of China's ports and coastal towns was lost to the colonial powers during China's century of humiliation. In the first opium war from 1839-1842 Britain humiliated the Qing emperor by defeating his huge army and forced him to sign an unequal treaty — The Treaty of Nanking 1842 which forced the emperor to open China to British companies and it was to give Hong Kong to Britain as a colony forever with a British Governor. Britain then forced further concessions from the weak emperor in 1860 and forced him to cede the whole Kowloon peninsula. Britain took advantage of China's defeat to Japan in 1895 and expanded its control by forcing the Qing emperor to cede the whole area around Hong Kong for a lease of 99 years with no rent.

The Hong Kong area when Britain took it over was an area of farming and fishing villages which the British foreign secretary at the time, Lord Palmerston described it as "a barren island with hardly a house upon it." But it gave Britain port to access China for trade and for its ships to dock and replenish. Eventually Hong Kong became a busy trading port and its economy took off in the 1950s as it became a manufacturing hub eventually becoming a significant financial centre and commercial port.

As the end of the lease of Hong Kong was approaching Britain attempted to continue its status with Deng Xiaoping in 1979. China regarded the treaties by which Britain obtained various parts of Hong Kong as unequal treaties, forced on China when it was weak, by a militarily stronger colonial nation. The lease was set to expire in 1997. In 1984 the Sino-British Joint Declaration was agreed which would see Britain hand back Hong Kong to China when the 99-year lease ended in 1997 on the condition China maintained Hong Kong's economic and political system for 50 years after the transfer.

This meant rather than Hong Kong fully integrating into mainland China it would become a special Administration Region of China where communism would not apply, it would have autonomy and its western lifestyle would be preserved. China agreed to this as it was not strong enough then to fully assimilate Hong Kong into mainland China, though it believed by 2047 it would be and would not renew the agreement at the time. Britain had built and ruled Hong Kong for so long and established western values and structures it believed it could maintain its influence in this indirect way. As China

refused further direct rule by Britain, Hong Kong was transferred to China on 1 July 1997, after 156 years of British colonial rule.

The Chinese regime began increasing its control as the years went by, by preselecting candidates for political office. When China announced in 2014 that people would only be allowed to vote for their chief executive in elections from a short list of pre-approved candidates Hong Kong witnessed its biggest protests since 1997. To protect themselves from police spraying tear gas, they used umbrellas, giving rise to the name the "Umbrella Movement." In 2017 Carrie Lam, a candidate loyal to Beijing was elected chief executive — Hong Kong's highest public official. Under her leadership pro-democracy politicians were removed from office and some jailed as





dissidents.

The only aspect left of Hong Kong's system that China did not control was the legal system. But hundreds of thousands of people took to the streets on 11th June 2019 when a legal proposal was being considered that would allow criminal suspects to be extradited to mainland China. Opponents of the extradition amendments said the changes would compromise the territory's legal independence.

Although the people of Hong Kong are Chinese, they see themselves as Hong Kongers first and do not want to be part of China. They view China as communist and want to be distinct and different to mainland China. Surveys carried out in Hong Kong show less than 10% of the population see themselves as Chinese, most see themselves as Hong Kongers who are more western and have a better system than China and are more free and live different lifestyles to mainland China. Britain ensured its culture was adopted by the people and this is now causing problems for China.

China's strategy was to always integrate Hong Kong slowly and join it with its mainland and eventually regain all its lost territories. But it has miscalculated and not been able to use political cunning to win the people of Hong Kong. Despite China's economic rise the people of Hong Kong see themselves different to China. Despite ruling over Hong Kong for 22 years, despite dominating the political system, the Chinese communist party has failed to win the hearts and minds of the Island. This is a major failure on the communist party as it lost many territories due to its century of humiliation and wants to regain all of them to show it's a united global power, but Hong Kong has shown the world the government in Beijing cannot force them to join China. China wanted to use the integration of Hong Kong to show Taiwan and Tibet that it is inevitable that they will need to join mainland China, but the huge demonstrations taking place in China show China internally is still divided and the Chinese

government does not control Hong Kong. This is bad for China internationally as China has been presenting itself as a rising power that should be respected but it cannot even control its own territory.

The government strategy has been to wait out the protests and let them lose steam, it is playing the long game. The Chinese leader Xi Jinping was made leader for life in order to create political stability as China faced many challenges but on all the main issues, he has not solved them from the trade war with the US, restructuring of the Chinese economy and the national debt. If Xi's leadership is questioned by the wider party he may send in the military to appear in control.

In many ways, Hong Kong is a stunning failure on China's part. One can have a large military and an economy, but unless you have values to give a society this material wealth does not give you strength the way values do. Hong Kongers are Chinese people just like mainland China, but they see themselves as western people and have embraced western values. Despite China's economic wealth, Hong Kongers don't want to be Chinese but western. China has no values for these people as well as the world. Despite its large economy, military and population, 7.5 million people of Hong Kong cannot be won by China. This really shows China's global standing.



# China's Economy a Ponzi Scheme?

In 1978 when Deng Xiaoping became China's leader, he introduced the notion that it was glorious for China to enrich itself. A communist country saw enriching itself as glory. This was a marked departure for the communist nation that saw richness in negative terms for so long.

This was achieved by using China's number one resource – its huge population. With the world's largest population China deployed its army of workers to produce what the world wants the most – consumer goods. China's army of workers meant whoever wanted to set-up a factory in the country, had nearly a billion labour personnel to choose from, they were also the cheapest in the world.

This allowed China to become the world's factory as its cheap labour, due to low wages, meant they could manufacture consumer goods – machines, mobile phones, textiles etc cheaper than anyone else. This is why Western consumers can buy the iPhone, laptops, shoes and furniture at such cheap prices, because the cost of making them is so low, as Chinese workers' wages are so low.

Global trade shifted to China to take advantage of the low cost of producing goods. The US played a key role in this as it was the world's largest consumer base, its citizens lapped up the cheap consumer goods coming out of Chinese factories. US manufacturers shifted production to China, destroying their own industries in the process and making millions unemployed, as Chinese labour was far cheaper.

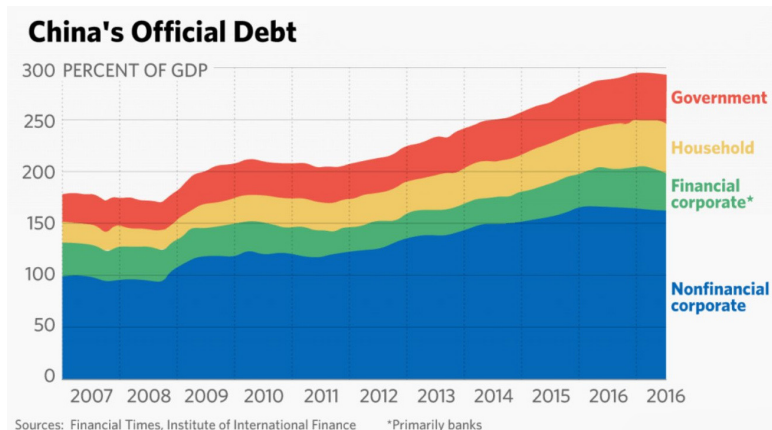
China's advantage was its cheap labour, and this was its advantage compared to every other nation in the world. But as China accumulated more and more wealth, its workers demanded ever higher wages, which would eat into company profit margins and into China's advantage. As China was looking to become the world's factory, it achieved this by exporting goods cheaper than anyone else. This was achieved by keeping the costs of production extremely low. The actual profits China makes on its exports is an extremely low 3% on average. The iPhone 7 is made up of some key components such as a touch screen display, memory chip, microprocessor etc. They come from a mix of US, Japanese, Korean and Taiwanese companies, such as Intel, Sony, Samsung and Foxconn. Almost none of them are manufactured in China. Apple buys the components and has them shipped to China for assembly, then they leave China inside an iPhone. The companies that own those

assembly factories, including Foxconn, are all based in Taiwan. When the iPhone 7 was released in 2016, all that China earned was around \$8.46, or 3.6% of the total profits. The US and Japan each took roughly \$68 cut, Taiwan got about \$48 and a little under \$17 went to South Korea. Nearly \$283 of gross profit from the retail price of the iPhone 7 when it debuted went directly to Apple's coffers.<sup>26</sup>

As its profits were so low relative to costs, investing in new tech, setting up new companies in new markets or just taking the risk to developing new sectors was out of the question, Chinese companies and SOE's borrowed money from the Chinese government to meet the growing wage bill of its workers.

China's economy came to be predicated upon a Ponzi scheme. As companies became more and more unprofitable, these companies resorted to loans from the government to pay their workers. The Chinese government directed loans to such companies as its strategic priority is to keep China's large population employed, otherwise the mass unrest would lead to threats to the Communist Party's rule. The Chinese government is lending to companies and enterprises that will unlikely repay their loans which will lead to a financial crisis when non-performing loans eat up all the original capital. Chinese domestic debt, despite being based primarily upon domestic borrowing is well in excess of its GDP.

Today, the demand for China's cheap goods has "maxed out", especially since the global economic crisis in 2008. Also China's economic system is predicated on exports and the Chinese government lubricated the Ponzi scheme by throwing money at unprofitable businesses. As China's largest export market fights back and as its other markets have slowed down and do not consume Chinese cheap goods at the levels they use to, China's Ponzi scheme has run its course. Unless China can shift to a new economic model based on domestic consumption, in order to replace its export led model, its system will collapse.



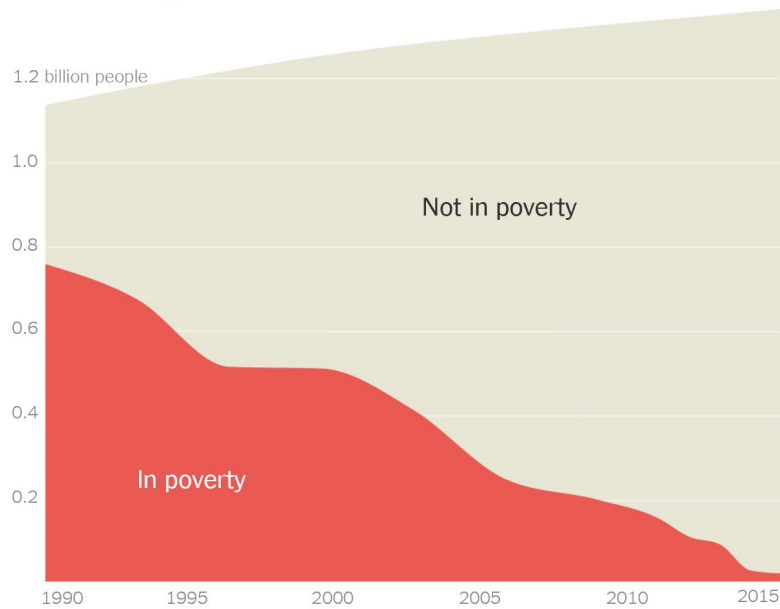


# China and Poverty

The biggest problem China faces in shifting from an export driven economy to domestic consumption is the fact that the overwhelming number of Chinese people are poor and cannot afford to consume in order to stimulate China's economy.

Since initiating market reforms in 1979, China has apparently lifted more than 800 million people out of poverty. This would make the transition to a consumption-based economy straightforward as 61% of the population has moved from poverty into affluence. The problem is however with the definition of poverty, which is usually based on the World Bank's definition. This is an extremely narrow definition and the 800 million figure obscures, rather than reveals, that poverty is still a significant problem in China.

The World Bank began tracking poverty in China in 1981. In that year, 88% of China's population lived on less than \$1.90 a day (870 million people). But if this threshold is pushed up just a little bit, poverty in China was even more striking: 99% of China's population lived on less than \$3.20 a day (over 980 million people). The last year for which the World Bank has official data is 2013, and at that point, only 11% (almost 150 million people) lived on less than \$1.90 a day. But 27% (almost 360 million people) lived on less than \$3.20 a day. If we push the poverty rate up to \$10 a day, then 908m Chinese – 68% of the population is below the poverty line.

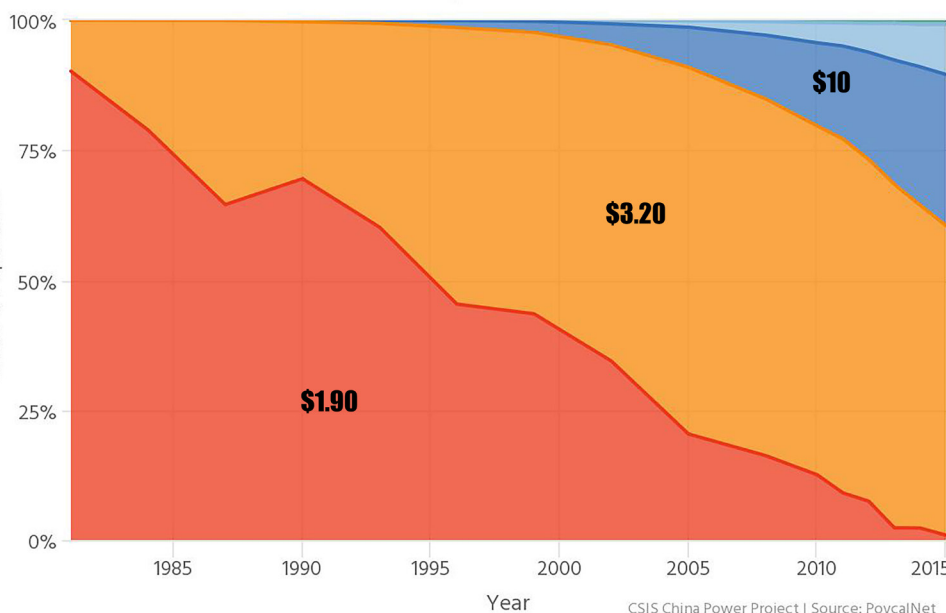


If population growth is factored in, it can be claimed that China has lifted 800 million people out of poverty; if poverty is defined as living on less than \$1.90 or \$3.20 a day. This doesn't say anything about how well those lifted out of poverty are doing. A rural household living on \$1.91 a day by this standard wouldn't be counted as suffering from extreme poverty, even though by any objective measure a household earning that much on an annual basis would be cripplingly poor.

China still faces further issues in rebalancing. The revolution in China was carried out by a massive agricultural peasant class. In 1978, only about 23% of people employed in China were urban workers – the country was still predominantly rural. As of 2015, over half of China's 770 million employed workers were urban workers. The problem is that the other half – almost 380 million people – are employed in rural areas. The urban households are not exactly raking it in, but the rural households have not progressed far enough to be able to contribute towards national consumption.

Then the division between the coastal and interior provinces skews China's wealth situation. An urban household in Beijing and in Shanghai live a lifestyle very different from a household in Qinghai or Gansu. China's advancement has not been

enjoyed evenly. Urban households in the interior Chinese provinces are earning far less than the per capita average. If that was not a problem, China's wealth distribution, this is the wealth the country's economic miracle generated, is skewed; worse than the US.



CSIS China Power Project | Source: PovcalNet



A mere 10% of the Chinese population owns 68% of the nation's wealth.<sup>27</sup> The Communist Party has a large patronage network and as a result, a large chunk of China's population has not shared in the country's economic miracle. This is why government spending has played such a crucial role as it has literally driven the country at the expense of the domestic population consuming. The central government has spent hundreds of billions on infrastructure development, on State Owned Enterprises (SOE) and upon ghost towns creating a real estate bubble in order to stave off a downturn in 2008 when exports plummeted. The effect of government investments has been an increase of production capacity and supply, which has resulted in severe overcapacity. In addition, to ward off mass unemployment and to gain export advantages, labour costs have been reduced again, thus keeping working people's purchasing power down.



***“A mere 10% of the Chinese population owns 68% of the nation's wealth. The Communist Party has a large patronage network and as a result, a large chunk of China's population has not shared in the country's economic miracle.”***







## Defensive Military

China's military attracts a lot of media attention whether its anti-aircraft carrier ballistic missiles, its new aircraft carrier or its growing cyber capabilities. China's military ascent has garnered significant global coverage because the US was bogged down in two long wars in Iraq and Afghanistan. Numerous works have been completed on the US vs China problem and when China may eclipse the US. Much of the research has used a bean counting exercise comparing the number of ships or aircraft of both countries, but this exercise is very limited. When evaluating any force, you have to measure it against the mission it is trying to accomplish and the adversaries it may face and how it plans to resource and coordinate all its assets.

The US military doctrine is based upon the US projecting power globally to maintain its global presence. As the global superpower it needs to have enough military presence in every region to ensure no power can develop into a continental power and potentially challenge US global dominance. The US has to project force over great distances and as a result it resources this with over 800 military bases around the world and the world's largest aircraft carrier group fleet. In fact, the US has long emphasised aircraft carriers, large surface combatants and a sizable fleet replenishment force that can project influence and force around the globe. This global presence also includes 825 air-fleet transporters and 508 refuelling tankers, more than the whole world combined. All of this is knitted together with a space-based communication system. The US maintains a high readiness rate in order to project power into any region of the world. Being a global force means the US will be able to deploy a limited number of ships and planes into a region at any given time, as a result the US defence industry builds the most superior military platforms in the world. The US military is doctrinally geared towards offensive operations and maintaining

troops abroad for this, as it has two oceans separating it from much of the world, its army focusses little on domestic defence.

China's military was for long geared towards a foreign invasion and for internal security. But this has changed in the 21st century. Its four decades long development has to be protected from both internal threats and those external. Its doctrine termed 'active defence', is based upon pre-emptively countering threats to the Chinese mainland as well as avoiding becoming entangled

in major conflicts, particularly those far away from China. China's doctrine is based on a regional view, not global, as this is where it expects threats to emerge. China sees the US as a potential adversary within its region due to its presence there. To resource this China realised it would need to develop its navy and air force as a result it has reduced and replaced its old naval and air platforms with more modern ones. It sees its platforms not travelling far from its mainland. As a result China has a small logistical base such as tankers and air transporters as it sees all future threats within its region. China's doctrine is defensive, to protect what it has, it is not for offensive purposes. China's military doctrine is the opposite to the US.

## Sea Power

***“China's military attracts a lot of media attention whether its anti-aircraft carrier ballistic missiles, its new aircraft carrier or its growing cyber capabilities. But much of the research has used a bean counting exercise comparing the number of ships or aircraft of both countries, but this exercise is very limited. When evaluating any force, you have to measure it against the mission it is trying to accomplish and the adversaries it may face and how it plans to resource and coordinate all its assets.”***

For China to project power beyond even its first island chain, which is between 500 miles – 1,000 miles depending on which port of China's coast one is looking out from. China needs air and maritime assets to do this. Submarines are vital for China for this as they offer China the most realistic and effective way to project military power far from its shores. While Beijing is in the process of building up a very capable surface fleet, it is not yet powerful enough to reliably break through the first island chain let alone dominate distant waters.

The Chinese navy has added a sizable number of diesel-electric submarines to its fleet — including some of relatively advanced design — but the number of available nuclear-powered attack submarines remains inadequate to China's needs. In contrast to its 50 diesel attack submarines, China only operates an estimated six nuclear attack submarines. Moreover, China's existing nuclear-powered submarines, including its latest Type 093 boats, still trail far behind both US and Russian designs in terms of quality, as they are noisier, possess less advanced sensors and deploy propulsion technology that is not as capable.

While diesel-electric submarines are well-suited for warfare within the first island chain, only nuclear submarines combine the stealth and the range necessary to engage in modern, long-distance operations. Nuclear submarines allow a navy to be at sea for longer periods due to nuclear propulsion. Germany in both world wars and the Soviet Union built up powerful submarine fleets precisely because their surface navies could not contend with the respective fleets of the Allies or NATO.



China has an air force of over 1,500 fixed wing aircraft, but it maintains only a partial fleet of around a dozen H-6U and IL-78 tankers for aerial refuelling capacity, this is not even close to service an air force the size of China's. Aerial refuelling is an important method by which China could increase the range and loiter time of its combat aircraft. If Beijing could accomplish this, its bombers could reach many distant targets, while its fighter aircraft could remain in the air longer to guard key targets. As China develops new combat aircraft like the H-20 stealth bomber, for instance, aerial refuelling capacity will become all the more important to maximize the capabilities of such aircraft.

China is moving forward with attempts to improve its aerial refuelling capacity. It has developed buddy refuelling (in which one fighter acts as a mini-tanker to refuel a fellow aircraft) for its J-15 carrier-borne fighters, while it is also developing a tanker version of its new Y-20 strategic transport aircraft. These developments, especially once large numbers of the Y-20 tankers come off the assembly line, will do much to bolster China's aerial refuelling capacity, but it will be a long time before China develops enough of these aircraft to make a strategic impact.

As China does not have a military that will fight far from home any conflict between the US and China would likely be in China's region. In a conflict close to the Chinese mainland, China's military would enjoy geographic and positional advantages, while the US would be required to successfully deploy its forces into the region. The geography of conflict is critical, and even short distances, have a major impact on relative capabilities. Chinese power projection capabilities are improving, but the PLA's ability to control military events diminishes rapidly beyond the unrefuelled range of jet fighters and diesel submarines. On the flip side the US will need time to build up a force of enough strength and concentrate them in the region,





making military bases and their protection essential for the US. Although China has rapidly developed its capabilities and in some areas closed the gap with the US, China has not caught up to the US military in terms of aggregate capabilities—and is not close to doing so—but it does not need to catch up to the US to dominate its immediate periphery. The advantages conferred by proximity severely complicate US military tasks. Fundamentally China is increasingly capable of challenging the ability of US forces to accomplish mission-critical tasks in scenarios close to the Chinese mainland. Beyond its mainland, China's capabilities are not just extremely limited, but virtually non-existent.

China's entire military modernisation has been built upon maintaining its economic growth and territorial integrity. China's economy is dependent upon the world's sea routes for its imports and exports. Any blockade would lead to economic collapse. Any disruption from Latin America to Africa to Australia would lead to economic collapse. Currently China lacks the capability to project power beyond its regional waters.

Currently China has a single air base in Djibouti. This means its air force cannot deploy in large numbers far from the homeland as fixed wing aircraft, despite being air platforms, they rely upon what's on the ground - fuel and air bases for maintenance. China's navy is being equipped with modern sea going platforms these vessels are small and will remain small as the navy's focus remains on exercising power closer to home in the South China and East China seas. Whilst China's fleet will grow, it is set to maintain a much larger fleet of small surface combatants and diesel-electric submarines — vessels that are only ideal for combat in littoral environments close to home ports.

China has become deeply intertwined into the global economy and on the trade and sea routes, but for the moment it does not have a military that can protect most of this architecture.

***“Chinese power projection capabilities are improving, but the PLA's ability to control military events diminishes rapidly beyond the unrefuelled range of jet fighters and diesel submarines.....***

***China is increasingly capable of challenging the ability of US forces to accomplish mission-critical tasks in scenarios close to the Chinese mainland. Beyond its mainland, China's capabilities are not just extremely limited, but virtually non-existent.”***

# Global Vision?

The Soviet Union took up the mission of spreading communism to the world. The US was the leader of the capitalist nations and undertook the task of spreading the ideology around the world and protecting the world from communism. These global missions turned both Russia and the US into global powers as they sought to establish their visions for the world.

China has no such ideological vision. Even when it was communist, China did not take part in any global mission in spreading the ideology. China's vision since its open and reform era was limited to developing its economy and then maintaining economic growth. China integrated into the US constructed global liberal order and its economy grew as a result of it. China does not subscribe to the values that underpin the liberal order, and criticises this aspect of it as the US attempts to impose its values upon other nations.

China has long criticised America's hegemony and the unilateral position it holds and believes there should be other nations which balance the US. China doesn't want to become the global hegemon as it doesn't want the responsibilities that come with it. China maintains there should be no global hegemon and ideally there should be regional powers, who are balanced with regional balance of powers. China sees this vision as an ideal, that will create a world which suits China and which it believes is the best for the world. China's global vision is not based on any values but is objective based. China therefore lacks true global aims and is more interested in maintaining economic ties with most countries and doesn't want to be bogged down with global political obligations and engaging in competition with the other powers in shaping multiple regions through engaging in political strategies.

Ideology plays no role in China's foreign policy. China has no messianic ideology to export; no doctrine of "manifest destiny" to advance; no belief in Social Darwinism or imperative of territorial expansion to act upon; no cult of the warrior to animate militarism or glorify war; no exclusion from contemporary global governance to overcome; no satellite states to garrison; no overseas colonies or ideological dependencies to protect; no history of power projection or military intervention beyond its immediate frontiers and no entangling alliances. China firmly believes its values are not universal, but unique to the Chinese people.

China has no values for the world, it has no ambition to become the global hegemon – it doesn't want the entanglements that come with it, it doesn't want to become like the US. China is more than happy with the liberal order, which China integrated into for its own development. But China views the presence of a global hegemon, who uses the liberal order to strengthen itself as a problem. China views the need for multiple powers in the world and even regional balances of powers for a fairer world. China's global view is an objective based judgment, not an ideological one. China's foreign policy is shaped mostly by its economic needs, these economic needs are now forcing it to clash with the US and this is where China will need to develop political strategies to navigate the global balance of power otherwise it will get engulfed with multiple problems.





# Conclusions

The past 180 years has been an extremely traumatic period in China's long history. 100 years ago, Japan and the European imperialists were carving China up. Despite being the world's most populated nation at the time it was so weak that as India was gearing up for a rebellion against the East India Company, the Chinese failed to organise opposition against foreign invasion. This period was described by Xi Jinping as: *"That page of Chinese history was one of humiliation and sorrow."*<sup>28</sup> This is the lens through which China's foreign policy is shaped by and it continues to shape the country's outlook.

The attempt to develop the country via communism was a disaster of epic proportions and it made the country fall even further behind the world's powers. It would take 30 years and the Great Leap forward and the Cultural Revolution for the ruling party to finally abandon communism in 1979.

Today, China is a completely different country to what it was 40 years ago when it began its open and reform era. Its economy is one of the largest in the world, it is the world's largest manufacturer, the world's largest exporter and the main trade partner to over 130 countries in the world. China has industrialised quicker than any nation or empire in history.

After WW2 Mao realised China would never be an independent country if it did not expel the imperialists and regain control over all of China. Mao set about expelling the British and the French and gaining control over China's buffer regions. It was this independence that allowed Deng in 1980 to initiate wide-reaching reforms that has turned China into an economic superpower.

In China's recent history each time it has initiated major changes or reforms it was due to the circumstances it found itself in. The Qing dynasty was forced to change due to European imperialism, the communists dealt with the aftermath after WW2 after the Japanese occupation. Today China is having to change its economic model as its integration into the global economy is not sustainable.

As a result, China has never articulated or presented how the world should fundamentally be or what values should underpin it. Due to this its foreign policy is determined by the need to maintain its economic model, which is fundamentally based upon

ensuring the large Chinese population have jobs. In Africa, China has invested hundreds of billions into infrastructure and into the continent's resources, but it has failed to get involved in the continent's politics; this is still dominated by the US, France and Britain. China has avoided getting involved in political entanglements as its focus is economic and ensuring its economy continues growing.

For China's economy to continue its current trajectory it needs to work to reshape the world in a way that suits its needs, because at the moment the world is shaped in the interests of the US. For the last four decades China has focused on developing its own economy, in the last decade it has undertaken actions to shape its own region – South East Asia and this is where it is bumping into the US. As China's supply lines travel well beyond its region it will bump into the US even more but for the moment China lacks the military capability to have permanent presence beyond China's littoral waters and this capability will take decades to acquire.

***"There is no doubt China is an economic power and a rising military power, but in the most critical area – politics it is extremely weak and this will constrain the nation. This is fundamentally due to China not possessing its own ideology and despite having its own values, it firmly believes these values are not universal and specific to the Han Chinese people."***

There is no doubt China is an economic power and a rising military power, but in the most critical area - politics- it is extremely weak and this will constrain the nation. This is fundamentally due to China not possessing its own ideology and despite having its own values, it firmly believes these values are not universal and specific to the Han Chinese people. This leads to China's interaction around the world to be largely transactional, based upon economic benefits. China, as an example has no view on how the Middle East should be, on the issue of Palestine or even on Syria. In Afghanistan, China is involved in reconstruction and development as it wants to access the country's wealth.

This supports the US agenda in maintaining stability when it's failed to defeat the Taliban after 17 years. On the Kashmir issue, China has not set up a forum or mechanism to resolve the issue in any manner, despite its considerable interests in the region. China just isn't a nation that gets involved politically in issues around the world and propose plans and then works to implement them. This just isn't what China does and this is its weakest aspect, which is critically important if it wants to challenge the global superpower and even to maintain its own trajectory.

China has come a long way after 150 years of turmoil. It today controls its borders and is respected globally. It remains to be seen what China will achieve in the decades to come. However, based on what's known, China wants to be at the table of the premier league nations, it wants no interference in its own country, and it wants to ensure its economy continues to grow. It has no hegemonic views about the world as the US does and sees itself as one power amongst many.

Despite making impressive achievements until China's views do not shift on such issues, its rise will remain economic for the foreseeable future.

***The lessons for the Muslims is China has shown that when an independent path is pursued a nation can develop itself. This is why after WW2 Mao Zedong worked to expel foreigners from the country and although he was communist, he was no agent of the Soviet Union. Despite deteriorating relations with the Soviet Union much of this was to do with China seeing itself as an independent nation. Today all the Muslim rulers are aligned with one power or another, whilst China saw itself as a power that should be at the negotiating table.***

China focused in building its capability with economic development at the top of the list. China did not become an export market for foreign multinational companies to sell their cheap goods to the world's largest population, but it ensured by carefully opening up its economy and achieved the necessary development it desperately needed. Foreign companies and foreign investment played a key role in China's development, but China kept them in the country's coastal areas and forced them to share technology and expertise so it can one day become self-sufficient. China used Western multinationals' needs, to manufacture cheap

goods to its own advantage and made it a condition for companies to trade in China, to transfer technology and skills. Today China is an industrial monster who gained the most from this process. In the Muslim world, the leaders lack such a vision and are content for foreign multinationals to make use of all the advantages, even though the Muslims see none of the results.

As China secured its domestic situation through economic development, it began to secure its position in its region, which is essential to becoming a future power. Despite opposition from regional nations and the world superpower, China used its economic strength to weaken the US stranglehold on the region. There is still some way to go, but US think tanks, officials and strategists accept the US can now be defeated in the South China Seas. Across the Muslim world, our leaders lack such thinking and are content in allowing their country to be used for foreign strategic interests.

There are also other lessons we should also take from China in order to avoid them. China is not an example of a unique form of development. The path that that was untaken by China was also taken by Taiwan, South Korea, Hong Kong and Singapore who also relied on becoming a cheap location for goods the West wanted. These Asian Tiger economies managed to make the transition to more sophisticated economies that focused on high tech goods be it semiconductors, financial services, electronic goods etc. China has followed the same path, but for the moment has not made the transition to developing something it dominates in technology.

China's development is rooted in the US opening relations with it during the Sino-Soviet split. The US strategy of splitting the Communist Bloc through relations with China by opening the US market to China and giving access to US technology, allowed China to very quickly develop, without this it's unlikely China would be in the position it is in today.

China's economic model is not a role model and neither is its politics which is rooted in a one-party system. China has absolutely no idea on how to create a cohesive society aside from maintaining a secret state and mass surveillance upon its own citizens. For the moment, aside from lots of cash to throw at countries and infrastructure projects, China has little to offer the world.



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